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/SB 260

SPONSOR: Commerce and Economic Opportunities Committee and Senator Kirkpatrick

SUBJECT: Economic Development

DATE: April 19, 1999 REVISED: 04/21/99

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Schmeling	Maclure	CM	Favorable/CS
2.	Hayes	Hadi	FP	Fav/4 amendments
3.				
4.				
5.				

I. Summary:

This committee substitute is an omnibus economic development bill relating to urban communities, which through its principal provisions:

- Creates the Retention Enhancing Communities Initiative to allow selected communities to compete for community redevelopment funds.
- Creates the State Housing Tax Credit Program authorizing tax credits to be issued against the state corporate income tax.
- Provides that the Adjutant General shall administer youth About Face programs and adult Forward March programs that provide life preparation and job readiness services to WAGES participants at sites selected by the Adjutant General, subject to annual appropriations.
- Directs the Office of Tourism, Trade, and Economic Development to designate a pilot project area within an enterprise zone which provides that up to four businesses within such area are eligible for credits against the sales tax and corporate income tax, computed on the basis of the number of employees of the business.
- Allows a business that is located in a Tampa enterprise zone, and that meets specified conditions, to apply for enterprise zone tax incentives dating back to July 1, 1995, if it applies by December 1, 1999.
- Allows for the amendment of the boundaries of an enterprise zone in a community that has received designation as a U.S. Environmental Protection Agency brownfield pilot project as of May 1, 1997.
- Creates an Urban Homesteading Program within the Governor's Office to make single-family housing properties available to eligible low-income buyers for purchase.

This committee substitute amends section 250.10; and creates sections 220.185, 290.0069, 414.224, 420.5093, 420.630, 420.631, 420.632, 420.633, 420.634, and 420.635, Florida Statutes.

II. Present Situation:

Work and Gain Economic Self-sufficiency

Chapter 96-175, L.O.F., eliminated individual entitlement to public assistance and created the Work and Gain Economic Self-sufficiency (WAGES) Program. Under the WAGES Program, for most individuals, cash assistance is temporary and is tied to a requirement that able-bodied adults must work and be financially responsible for themselves and their families. WAGES Program requirements and administrative responsibilities are established in ch. 414, F.S.

Legislative Committee on Intergovernmental Relations

In recognizing the importance of the vitality of urban cores to their respective regions and the state, the Legislative Committee on Intergovernmental Relations (LCIR) conducted an interim project, during the summer of 1997, on developing an urban policy for Florida to preserve, revitalize, and sustain the state’s urban centers. During the course of the interim, the committee heard testimony from many experts including urban policy scholars; federal, state, and local government officials; representatives from regional entities, financial institutions, and residential and commercial developers; and others knowledgeable about urban issues.

The testimony emphasized the need for public/private partnerships, as well as the involvement of the community, to successfully address the varied problems of an urban area. Each urban area has unique needs and community support is needed in affecting change and directing resources to those needs. In addition, the private sector stressed the importance of the state and local governments demonstrating their commitment to urban areas before they were willing to invest in redevelopment projects. Finally, the following specific urban problems were identified:

- Vacant and abandoned buildings;
- Loss of jobs and corresponding high unemployment rates;
- Lack of public transportation facilities;
- Concerns for public safety;
- Difficulty in recruiting businesses into core areas;
- Disincentives to development because of lower land prices and building costs outside of urban areas;
- Eroding tax bases;
- Deterioration of neighborhoods; and
- Lack of sense of regional identity or citizenship by residents in outlying areas.

The LCIR sought to begin establishing a state urban policy by developing and identifying policies essential to revitalization of urban cores. The LCIR initially focused its efforts on promoting urban infill and redevelopment as a method to create jobs, improve neighborhoods, stimulate the economy, and to have a general positive affect in rectifying other urban needs. The committee sought to "level the playing field" between the cost of developing downtown versus the urban fringe, and to encourage urban redevelopment generally. The committee's recommendations are set forth in a report titled *"1998 Report On The Development Of A State Urban Policy."*

Florida has various policies that address aspects of urban development including the State Comprehensive Plan, Strategic Regional Policy Plans, Local Government Comprehensive Plans, and Community Redevelopment Agencies, among others. More recently, a law enacted by the 1996 Legislature authorized the Department of Community Affairs to undertake a Sustainable Communities Demonstration Project for the development of models to further enhance local government's capacity to meet current and future infrastructure needs with existing resources. Additionally, the Governor's Commission for a Sustainable South Florida and the Department of Community Affairs, in conjunction with regional and local level governmental entities, have initiated a regional approach to urban revitalization through the "Eastward ho!" initiative in southeast Florida.

Federal Tax Credit Program for Low-Income Housing

The Tax Reform Act of 1986 established the Federal Low Income Housing Tax Credit program (LIHTC). Each year, the U.S. Department of Treasury awards each state with an allocation authority consisting of the per capita amount ($1.25) and the state's share of the national pool (unused credits from other states). The Florida Housing Finance Corporation (FHFC) is the sole issuer of tax credits for Florida. Since 1987, the program has allocated over $187 million in tax credits for the production of more than 42,000 affordable rental units, valued at over $2.2 billion.

Tax credits may be claimed by owners of residential rental property used for low income housing. The credit amounts are based on the cost of the building and the portion of the project that low income households occupy. The cost of acquiring, rehabilitating, and constructing a building constitutes the building's eligible basis. The portion of the eligible basis attributable to low-income units is the building's qualified basis. A percentage of the qualified basis may be claimed for 10 years as the low income housing credit. Eligible properties must comply with a number of requirements regarding tenant income levels, gross rents, and occupancy. Projects must be held for low-income use for a minimum of 15 years under federal law. For a project to qualify for the low income housing credit, one of two tests must be met:

- at least 20 percent of the project must be occupied by households with incomes at or below 50 percent of the area median income; or
- at least 40 percent of the project must be occupied by households at or below 60 percent of area median income.

Enterprise Zone Programs

Florida established one of the first enterprise zone programs in the country in 1980 to encourage economic growth and investment in distressed areas by offering tax advantages to businesses willing to invest within specified areas. An “enterprise zone” is a specific geographic area targeted for economic revitalization. The state has 31 designated enterprise zones in Florida.

In 1994, the Legislature passed significant revisions to the enterprise zone program. The original program became overwhelmed with the number of zones allowed. As a result, the existing zones were repealed on December 31, 1994, and parameters were established for the designation of new zones. Administrative responsibilities of the program were transferred from the Department of Community Affairs to the Department of Commerce. The jobs tax credit eligibility criteria were revised to require both the business and employee to reside within an enterprise zone.

In 1995, 19 enterprise zones were designated in urban and rural communities throughout the state. Local governments were required to establish a community-based Enterprise Zone Development Agency.

In 1996, 11 new enterprise zones were authorized by the Legislature, 10 of which submitted acceptable plans and applications. Administrative duties were transferred to the newly created Office of Tourism, Trade, and Economic Development (OTTED) upon dissolution of the Department of Commerce. In 1997, OTTED designated the City of Fort Pierce as the 30th enterprise zone. In 1998, the 31st enterprise zone was added when the Legislature further amended the enterprise zone program by authorizing a new zone to be designated within a brownfield pilot project area (Clearwater). Also in 1998, the Legislature authorized WAGES Program participants and certain Job Training Partnership Act classroom training participants to provide a basis for the jobs tax credits even if they do not reside in the zone.

III. Effect of Proposed Changes:

Section 1 creates s. 414.224, F.S., the Retention Enhancing Communities Initiative (RECI). The Legislature finds that distressed urban cores have high proportions of former and current WAGES participants, and that the existence of strong communities is crucial to reduce recidivism among former WAGES participants and to create jobs and promote retention among this population. The purpose of this program is to develop selected communities with the participation of, and for the benefit of, current and former WAGES participants.

By July 1, 1999, the WAGES Program State Board of Directors is required to identify 14 communities in the state’s largest seven counties. By July 10, 1999, the board must solicit proposals from the communities, including a plan on how each community will coordinate and incorporate the six RECI elements.

By October 1, 1999, the board must select up to nine communities to participate in RECI. Selected communities will compete for projects within the six RECI elements. RECI projects must be operational by January 2000, and completed by December 31, 2001. The six RECI elements include:

- *WAGES Community Safety*: Funds awarded for activities designed to reduce crime and increase safety, including training and employing WAGES participants in safety

positions, making safety infrastructure improvements, and establishing security businesses.
- *WAGES Community Builders*: Funds awarded for short-term cleanup projects, as well as planning and implementation of large-scale revitalization efforts.
- *WAGES Community Businesses*: Funds awarded for small business development projects, including recruitment of national franchise operations, micro loans, guaranteed loans, technical assistance, self-employment, and business incubators.
- *WAGES Community Schools*: Funds awarded to upgrade schools and to provide training and employment to WAGES Program participants to assist with transportation, school services, and security. Assisted schools must offer before, after, and summer school programs for WAGES children.
- *WAGES Community Partnerships*: Funds awarded for the provision of tax credits to businesses that contribute to projects in RECI communities that are eligible under the community contribution tax credit program.
- *WAGES Community Redevelopment*: Funds awarded for projects leading to residential, mixed-use, and commercial development, as well as residential and business infrastructure redevelopment projects. The redevelopment finance review team will review projects and coordinate resources.

By July 15, 1999, the Governor must name a coordinator in the Office of Urban Opportunity with authority to work with the WAGES Program State Board of Directors to direct agency assistance, solve problems, and commit resources.

The WAGES Program State Board of Directors must establish a center for community excellence, affiliated with an educational institution or group of institutions, to provide research, consulting, technical assistance, capacity building, training, and program assistance to RECI communities.

This section specifies funding for RECI projects including:

- $25 million in Temporary Aid to Needy Families (TANF) funding for WAGES Community Safety.
- $20 million in unclaimed lottery prize money for WAGES Community Builders.
- $25 million in TANF funding for WAGES Community Businesses.
- $25 million in TANF funding for WAGES Community Schools.
- $30 million in TANF funding for WAGES Community Partnerships.
- $10 million annually until 2010 in TANF funding and $15 million annually in rental car surcharge funding designated for the Transportation Trust Fund for WAGES Community Redevelopment, with authority to issue bonds with the funds used to support principal and interest on the bonds.

The Governor is directed to notify the U.S. President and the Congressional delegation of any federal government delays that impede implementation of RECI, and must pursue a budget amendment to redirect resources toward RECI and pursue reimbursement methods.

Finally, this section requires periodic and final reports.

Section 2 creates s. 220.185, F.S., to establish a state housing tax credit against state corporate income taxes. The provision includes legislative findings and a statement of policy and purpose, which declares that the tax credit program provides an incentive for private corporations to participate in the revitalization of urban areas by granting state corporate income tax credits to qualified low-income housing projects, including housing specifically designed for the elderly, and associated mixed-use projects.

This section provides definitions of key terms, which are the same as or similar to terms used in the federal Low-Income Housing Tax Credit Program (LIHTC). The “credit period” extends for five years, rather than 10 as is in the LIHTC program. The term “eligible basis” is defined the same as it is in the LIHTC program. The term “adjusted basis” references the federal code. The term “qualified project” means a “project located in an urban infill area, at least 50 percent of which, on a cost basis, consists of a qualified low-income project within the meaning of s. 42(g) of the Internal Revenue Code” -- which references the federal code for the LIHTC program. However, the income restrictions imposed by that part do not apply to projects designed specifically for the elderly, unless imposed by the Florida Housing Finance Corporation (FHFC). In addition, “urban infill area” is defined as an area designated for urban infill as defined by s. 163.3164, F.S. This definition of “urban infill” differs from the definition of urban infill and redevelopment that applies to sections 1-6 of the committee substitute.

This section also establishes the parameters of the new program. The allowable credit is 9 percent of the eligible basis of any designated project for each year of a 5-year credit period against any state corporate income tax due in a taxable year. The total amount of tax credits which may be granted for all projects approved under this committee substitute is $5 million annually for five years. The FHFC is required to allocate the tax credit among designated projects. Designated projects are required to comply the applicable provisions of s. 42 of the Internal Revenue Code, which is the section governing the LIHTC program. Transfer of the tax credit is limited to other owners of the designated project.

Section 3 amends s. 250.10, F.S., related to appointment and duties of the Adjutant General, to include administration of the youth About Face programs and adult Forward March programs. About Face must establish a summer and a year-round after school life-preparation program for economically disadvantaged and at-risk youths from 13 through 17 years of age, and both programs must provide schoolwork assistance, focusing on the skills needed to pass the high school competency test, and also focus on functional life skills. The after school program must train students in academic study skills, and basic business skills necessary for employment consideration. The Forward March program will train WAGES Program participants on skills directly related to real-world success and provide participants with opportunities to practice generic job skills in a supervised work setting. Participants completing the Forward March program will be placed in a job-placement pool by the local WAGES coalition.

Section 4 creates s. 290.0069, F.S., to direct the Office of Tourism, Trade, and Economic Development (OTTED) to designate a pilot project within one enterprise zone. Eligibility criteria are specified for the pilot project/enterprise zone, including, among others, that the pilot project area contains a diverse cluster or grouping of facilities or space for a mix of retail, restaurant, or service related industries. Beginning December 1, 1999, no more than four businesses in the project area may claim a credit for taxes due under chs. 212 and 220, F.S. Credits must be computed as $5,000 times the number of full-time employees of the business and $2,500 times the number of part-time employees of the business, and the total amount of credits that may be granted under this section annually is $1 million. This section further provides for prorated credit amounts in the event of excess demand. This section specifies eligibility requirements for businesses, including, among others, that the business has entered into a contract with a developer of a diverse cluster or grouping of facilities or space located in the pilot area, governing lease of commercial space in a facility.

Section 5 provides that a business that is located in a Tampa enterprise zone, and that was eligible for enterprise zone tax incentives from July 1, 1995, to July 1, 1998, must submit an application for the tax incentives by December 1, 1999.

Section 6 allows for the amendment of the boundaries of an enterprise zone in a community that has received designation as a U.S. Environmental Protection Agency brownfield pilot project as of May 1, 1997.

Section 7 creates s. 420.5093, F.S., to create the State Housing Tax Credit Program within the FHFC. The FHFC is required to establish eligibility criteria, application procedures, and determine qualified projects. The board of directors of FHFC is responsible for administering the allocation procedures and determining allocations on behalf of the corporation. The FHFC is required to prepare an annual plan, to be approved by the Governor, containing allocation and distribution guidelines. This provision also establishes application and application approval criteria.

Subsection (5) of s. 420.5093, F.S., duplicates s. 420.5099(5), F.S., which addresses LIHTC properties, to impose property tax assessment restrictions. When assessing property for ad valorem tax purposes, “neither the tax credits nor financing generated by tax credits shall be considered as income to the property, and the rental income from rent-restricted units in a state housing tax credit development shall be recognized by the property appraiser.”

Sections 8-13 create ss. 420.630-420.635, F.S., an Urban Homesteading Program to be administered by the Office of Urban Opportunity in the Office of Tourism, Trade, and Economic Development within the Governor’s Office. The purpose of the program is to make foreclosed single-family housing available to eligible buyers. A qualified buyer is defined as a person who, for a five-year period: stays drug-free and crime-free; the school-age children of the applicant must remain in school; and at least one member of the household must remain employed. In addition, the qualified buyer must, and his or her spouse must, have incomes below the median income for the state, as determined by the United States Department of Housing and Urban Development, based on the number of family members.

At the end of the five-year period, the housing authority must deed the property to the qualified buyer for $1, if such buyer has resided at the property for at least five years, and complied with the terms of the homestead agreement. If bonds or notes remain outstanding on the property, the qualified buyer shall pay a pro rata share of the bonded debt on that property. The Department of Community Affairs must provide loans to qualified buyers who are required to pay the pro rata share of any bonded debt on the single family housing.

Section 14 provides that except as otherwise provided, this act will take effect on July 1, 1999.

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:

This committee substitute has not been reviewed by the Revenue Estimating Conference. The committee substitute creates a state housing tax credit against the corporate income tax. The total amount of tax credits which may be granted for all projects approved under the program is $5 million annually for five years.

The committee substitute also provides for designation of an enterprise zone pilot project area, under which certain businesses may claim credits against sales tax and corporate income tax. The total amount of credits that may be granted under the provision annually is $1 million.

B. Private Sector Impact:

Private developers of low-income housing will benefit from the availability of additional housing tax credits for the construction of low-income housing.

Developers and providers of low-income housing will benefit to the extent they qualify for the tax credits offered under the proposed State Housing Tax Credit program.

C. Government Sector Impact:

For Fiscal Year 1999-2000, this committee substitute specifies funding for RECI projects including:

- $25 million in TANF funding for WAGES Community Safety.
- $20 million in unclaimed lottery prize money for WAGES Community Builders.
- $25 million in TANF funding for WAGES Community Businesses.
- $25 million in TANF funding for WAGES Community Schools.
- $30 million in TANF funding for WAGES Community Partnerships.

- $10 million annually until 2010 in TANF funding and $15 million annually in rental car surcharge funding designated for the Transportation Trust Fund for WAGES Community Redevelopment.

The FHFC will incur additional responsibilities in administering the proposed State Housing Tax Credit program, and the Department of Community Affairs will incur additional responsibilities in providing loans associated with the urban homesteading program.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

#1 by Fiscal Policy Committee:
This amendment deletes the specific appropriations and provides authorization for the Department of Children and Family Services to spend up to $50 million TANF Block Grant Funds to implement the Retention Enhancing Communities Initiative.

#2 by Fiscal Policy Committee:
This amendment delays the OPPAGA review of the Enterprise Zone Pilot Project until 2004.

#3 by Fiscal Policy Committee:
This amendment deletes the State Housing Tax Credit and related fiscal impact provisions created in the bill.

#4 by Fiscal Policy Committee:
This amendment authorizes local WAGES Coalitions to assist WAGES Program participants in establishing Individual Development Accounts (IDAs) and to use TANF funds from their allocation to match participant contributions to the IDAs.

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