

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** HB 1629      Urban Revitalization  
**SPONSOR(S):** Rivera  
**TIED BILLS:**                      **IDEN./SIM. BILLS:** SB 2786

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| REFERENCE                                          | ACTION | ANALYST       | STAFF DIRECTOR   |
|----------------------------------------------------|--------|---------------|------------------|
| 1) <u>Workforce and Economic Development (Sub)</u> | _____  | <u>Winker</u> | <u>Whitfield</u> |
| 2) <u>Commerce</u>                                 | _____  | _____         | _____            |
| 3) <u>Local Government and Veteran Affairs</u>     | _____  | _____         | _____            |
| 4) <u>Finance and Tax</u>                          | _____  | _____         | _____            |
| 5) <u>Appropriations</u>                           | _____  | _____         | _____            |

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### SUMMARY ANALYSIS

HB 1629 authorizes the creation of a "Tax-Free Urban Revitalization Pilot Project" in Miami-Dade County which will permit any business, established beginning July 1, 2003, in a designated "Tax Free-Zone" to receive a sales tax exemption under s. 212.08, F.S. Any new business in the zone will receive the sales tax exemption and an exemption from documentary taxes only by applying to a newly created Urban Revitalization Task Force

The bill requires the task force to review the new businesses' application for tax free status to determine if the business meets the criteria to receive a tax credit. The bill requires the task force to certify whether 20 percent of any tax-free zone businesses' employees, excluding temporary and part-time employees, are residents of the tax-free zone. A business may be exempt from the 20 percent requirement if it can demonstrate just cause to the task force. A business must fulfill the 20 percent requirement throughout each year in order to maintain its tax-free status.

The bill provides that the tax exemption in the zone shall expire and be void on June 30, 2013. No business shall be permitted to claim a sales tax exemption after that date.

The bill creates the Urban Revitalization Task Force comprised of seven members. Members of the task force include: a business owner and a resident of the tax-free zone appointed by the Governor; a member of the Senate and a member of the House of Representatives, each residing in Miami-Dade County and appointed by their respected leaders; a Dade County Commissioner appointed by the County Mayor; a Miami City Commissioner appointed by the City Mayor; and the Director of the Office of Tourism, Trade, and Economic Development. The bill provides that the terms of task force members shall be for four years and the task force must meet at least on a quarterly basis. The task force may employ staff, including an executive director, technical experts, and legal staff. The bill requires the task force to file, or before March 31 of each year, an activities report, including a complete financial statement.

The bill requires the Office of Program Policy Analysis and Government Accountability to review and evaluate the effectiveness and viability of the pilot project and submit a report to the Legislature by January 15, 2012. The bill becomes effective upon becoming law, is repealed on June 30, 2013, and any designation made pursuant to the act becomes revoked on that date.

The Department of Revenue estimates first year's cost at \$198,555 and \$39,366 for subsequent years.

**This document does not reflect the intent or official position of the bill sponsor or House of Representatives.**

**STORAGE NAME:** h1629.com.doc  
**DATE:** April 11, 2003

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. DOES THE BILL:

- |                                      |                                         |                             |                                         |
|--------------------------------------|-----------------------------------------|-----------------------------|-----------------------------------------|
| 1. Reduce government?                | Yes <input type="checkbox"/>            | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. Lower taxes?                      | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/>            |
| 3. Expand individual freedom?        | Yes <input type="checkbox"/>            | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. Increase personal responsibility? | Yes <input type="checkbox"/>            | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. Empower families?                 | Yes <input type="checkbox"/>            | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a “no” above, please explain:

#### B. EFFECT OF PROPOSED CHANGES:

HB 1629 authorizes the creation of a “Tax-Free Urban Revitalization Pilot Project” in Miami-Dade County which will permit any business, established beginning July 1, 2003, in a designated “Tax Free-Zone” to receive a sales tax exemption under s. 212.08, F.S. Any new business in the zone will receive the sales tax exemption and an exemption from documentary taxes only by applying to a newly created Urban Revitalization Task Force. Any new, expanded, or rebuilt business in the zone must file a notice with the task force on a form prescribed by the Department of Revenue. The application must describe the real and tangible personal property owned or leased by the business prior to its expansion and the net new or additional real and intangible personal property acquired to facilitate the new, expanded, or rebuilt business. The application submitted to the task force by the new, expanded, or rebuilt business must be filed under oath and must also indicate whether the business is a small business.

The bill requires the task force to review the new business’s application for tax free status to determine if the business meets the criteria to receive a tax credit. The bill requires the task force to certify whether 20 percent of any tax-free zone businesses’ employees, excluding temporary and part-time employees, are residents of the tax-free zone. A business may be exempt from the 20 percent requirement if it can demonstrate just cause to the task force. A business must fulfill the 20 percent requirement throughout each year in order to maintain its tax-free status. The bill requires the task force to send a copy of the certification to the executive director of the Department of Revenue. The bill also requires businesses to forward certified applications to the department.

The bill provides that the tax exemption in the zone shall expire and be void on June 30, 2013. No business shall be permitted to claim a sales tax exemption after that date.

The bill creates the Urban Revitalization Task Force comprised of seven members. Members of the task force include: a business owner and a resident of the tax-free zone appointed by the Governor; a member of the Senate and a member of the House of Representatives, each residing in Miami-Dade County and appointed by their respected leaders; a Dade County Commissioner appointed by the County Mayor; a Miami City Commissioner appointed by the City Mayor; and the Director of the Office of Tourism, Trade, and Economic Development. The bill provides that the terms of task force members shall be for four years and that the task force must meet at least on a quarterly basis. The task force may employ staff, including an executive director, technical experts, and legal staff.

The bill requires the task force to file with an unspecified governing body on or before March 31 of each year, an activities report, including a complete financial statement.

The bill requires the Office of Program Policy Analysis and Government Accountability to review and evaluate the effectiveness and viability of the pilot project and submit a report to the Legislature by January 15, 2012.

The bill becomes effective upon becoming law, is repealed on June 30, 2013, and any designation made pursuant to the act becomes revoked on that date.

### **Current Situation**

Florida statutes do not currently permit the designation of urban revitalization tax-free zones or the creation of an urban revitalization task force. However, Florida law does permit the designations of Enterprise Zones, which are similar but not identical to an urban revitalization tax-free zone as proposed in HB 1629.

### **Enterprise Zone Program**

In 1980, Florida established one of the first enterprise zone programs in the country to encourage economic growth and investment in distressed areas. An enterprise zone is a specific geographic area targeted for economic revitalization.

The purpose of enterprise zones is to assist local communities, their residents, and the private sector in creating the environment to induce the investment of private resources in business enterprises located in severely distressed areas and to provide jobs for residents in the area.

Under the Enterprise Zone Act of 1994 [ss.290.001-290.016, F.S.], areas of the state meeting specified criteria have been designated as enterprise zones. According to the Office of Tourism, Trade, and Economic Development, since July 1, 1995, the state has designated 47 enterprise zones. State and local incentives are authorized to induce businesses to invest in enterprise zone which, in turn, offers a number of tax advantages to such businesses willing to make such an investment.

### **State and Local Incentives Available to Businesses in Enterprise Zones**

Below are incentives provided to encourage the revitalization of enterprise zones:

- Enterprise zone jobs credit provided in s. 220.181, F.S.
- Enterprise zone property tax credit provided in s. 220.182, F.S.
- Sales tax exemption for building materials used in the rehabilitation of real property in enterprise zones provided in s. 212.08(5)(g), F.S.
- Sales tax exemption for business property used in an enterprise zone provided in 212.08(5)(h), F.S.
- Sales tax exemption for electrical energy used in an enterprise zone provided in s. 212.08(15), F.S.
- Enterprise zone jobs credit against the sales tax provided in s. 212.096, F.S.
- Occupational license tax exemption in s. 205.054, F.S.
- Economic development ad valorem tax exemption in s. 196.1995, F.S.

#### ***Enterprise Zone Jobs Credit – Corporate Income Tax***

Businesses located in an enterprise zone that pay Florida corporate income taxes are authorized to receive a tax credit against their corporate income tax based on the amount of wages paid to new employees who are either residents of an enterprise zone or participants in a welfare transition program.

### *Enterprise Zone Property Tax Credit - Corporate Income Tax*

New, expanded, or rebuilt businesses located within an enterprise zone are allowed a credit on their Florida corporate income tax based on the amount of property taxes paid.

### *Exemption for Building Materials Used in an Enterprise Zone – Sales Tax*

A refund is available for sales taxes paid on the purchase of building materials used in the rehabilitation of real property used in an enterprise zone. 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 business's employees reside in an enterprise zone, the lesser of 97 percent of the sales taxes paid or \$10,000.

### *Exemption for Business Property Used in an Enterprise Zone – Sales Tax*

A refund is available for sales taxes paid on the purchase of business property with a purchase price of \$5,000 or more purchased by and for use in a business located in an enterprise zone. 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 business's employees reside in an enterprise zone, the lesser of 97 percent of the sales taxes paid or \$10,000.

### *Exemption for Electrical Energy Used in an Enterprise Zone – Sales Tax*

A sales tax exemption is available to qualified businesses located in an enterprise zone on the purchase of electrical energy. The amount of the exemption is equal to 50 percent of the sales taxes otherwise due or 100 percent of the sales taxes otherwise due if 20 percent or more of the business's employees reside in an enterprise zone. This exemption is only available if the municipality in which the business is located has passed an ordinance to exempt the municipal utility taxes on such business.

### *Enterprise Zone Jobs Credit – Sales Tax*

Businesses located within an enterprise zone that collect and pay Florida sales and use tax are allowed a credit against their sales tax due based on the amount of wages paid to new employees who are either residents of an enterprise zone or participants in a welfare transition program.

### *Occupational License Tax Exemption*

By ordinance, the governing body of a municipality may exempt 50 percent of the occupational license tax for businesses located in an enterprise zone.

### *Economic Development Ad Valorem Tax Exemption*

Up to 100 percent of the assessed value of improvements to real or tangible property of a new or expanded business located in an enterprise zone may be exempted from property taxes if the voters of a municipality authorize the governing body of the municipality to grant such exemptions.

## **Enterprise Zone Designation Process and Criteria**

Section 290.0055, F.S., prescribes the local procedures for the nomination of an enterprise zone. Governing bodies or body of a county and/or a municipality must adopt a resolution which:

1. Finds that an area exists in such a county or municipality, or in both the county and one or more municipalities, which chronically exhibit extreme and unacceptable levels of poverty, unemployment, and economic disinvestment;

2. Determines that the rehabilitation, conservation, or redevelopment of the area is necessary in the interest of the public health, safety, and welfare of the residents of the county or municipality, or the county and one or more municipalities; and
3. Determines that the revitalization of the area can occur only if the private sector can be induced to invest its own resources in productive enterprises that build or rebuild the economic viability of the area.

The governing body or bodies of a nominated area must also create an enterprise zone development agency and create and adopt an enterprise zone strategic plan prior to the submission of an application to the Office of Tourism, Trade, and Economic Development.

The enterprise zone development agency created is responsible for assisting with the development and implementation of the enterprise zone strategic plan. The enterprise zone strategic plan is the community's plan for revitalizing the nominated area and contains commitments to enact and maintain local fiscal and regulatory incentives if the nominated area receives an enterprise zone designation.

Section 290.00675, F.S., authorizes the Office of Tourism, Trade, and Economic Development to amend the boundaries of an area designated as an enterprise zone in a community having a population of at least 235,000 persons but no less than 245,000 persons as long as the area so designated does not increase the overall size of the enterprise zone by greater than 25 acres and the increased area is contiguous to the existing enterprise zone.

### **Determination of Poverty, Unemployment, and General Distress**

The Office of Tourism, Trade, and Economic Development may designate the nominated area as an enterprise zone if the selected area suffers from pervasive poverty, unemployment, and general distress. To determine whether an area suffers from pervasive poverty, census data must show that the poverty rate for each census block within the nominated area is at least 20 percent. The poverty rate must also exceed 30 percent in at least 50 percent of the census geographic block groups within the nominated area.

If a census block group within a nominated area has no population, it is considered to have a 20-percent poverty rate. Unemployment is evidenced by data indicating that the unemployment rate is equal to or greater than the state's unemployment rate or by evidence indicating severe economic conditions for the area. General distress is evidenced by such factors as a high crime rate, abandoned structures, and deteriorated infrastructure or substantial population decline.

### **Enterprise Zone Program Costs**

Based on data from the Office of Tourism, Trade, and Economic Development, the impact of the Enterprise Zone Program is summarized in the table below.

| YEAR      | NEW OR<br>RELOCATED<br>BUSINESSES | JOB<br>CREATED | NUMBER<br>OF ZONES | STATE<br>INCENTIVES | LOCAL<br>INCENTIVES |
|-----------|-----------------------------------|----------------|--------------------|---------------------|---------------------|
| 2001-2002 | 1,244                             | 5,630          | 47                 | \$6,739,551         | \$ 5,847,694        |
| 2000-2001 | 654                               | 6,394          | 34                 | \$4,746,396         | \$16,202,894        |
| 1999-2000 | 766                               | 5,141          | 34                 | \$5,458,835         | \$10,135,657        |
| 1998-1999 | 776                               | 5,305          | 32                 | \$5,170,899         | \$18,839,076        |
| 1997-1998 | 151                               | 3,572          | 31                 | \$4,495,218         | \$ 8,853,197        |
| 1996-1997 | 434                               | 4,573          |                    | \$4,449,941         | \$ 6,803,474        |
| 1996-1996 | 128                               | 2,188          |                    | \$ 817,422          | \$ 4,252,766        |

Source: Compilation of data from the Office of Tourism, Trade, and Economic Development, *Florida Enterprise Zone Program Annual Report October 1, 2001 - September 30, 2002*, pp. 5 and 6, March 1, 2003.

The Florida Enterprise Zone Act of 1994 is scheduled for repeal on December 31, 2005, as provided by s. 37, ch. 94-136, L.O.F.

### **Michigan Renaissance Zones**

In 1996, Michigan became the first state to establish Renaissance Zones which are different but similar to Florida's Enterprise Zones in terms of purpose. The purpose of Michigan's Renaissance Zones is to foster economic development; stimulate industrial, commercial, and residential improvements; and prevent physical and infrastructure deterioration of certain geographic areas in Michigan.

Michigan's Renaissance Zones exempt employers and residents in such zones from the majority of state and local taxes for up to 15 years. Such zones do not discriminate based upon the type of businesses and minimal if any paperwork is required.

When the Michigan law was first passed in 1996, local governments or a combination of local governments which met certain economic criteria could apply to become a Renaissance Zone under one of three categories: Urban, Rural, or Ex-Military Facility. During the first round, 20 communities applied for renaissance status and eleven of those communities were approved. Because the entire community which applied may not be eligible for Renaissance status, sub-zones were created. Each eligible community has between 1 and 10 sub-zones, and sub-zones do not necessarily respect municipal boundaries.

In 1999, a second round of renaissance zones were passed into law and nine new communities became eligible for renaissance status. This legislation contained provisions that allowed already existing zones to expand their zone to accommodate the growing needs of their community and the ability to lengthen the term of their status up to 15 years from the time the zone became active.

Over the last few years, Michigan public officials have found even more ways to use renaissance zones creatively. To help Michigan's struggling agriculture industry, legislation was passed into law in 2000 qualifying communities to apply for renaissance status under a fourth category, agriculture. Thus far, three agricultural sub-zones have been awarded renaissance status.

In 2002, Michigan state legislators approved two new types of Renaissance Zones: energy and pharmaceutical. But, unlike other renaissance zones, these new zones target certain types of industries; residents and firms engaged in other types of research in the zone will not reap the tax benefits.

Michigan's Renaissance Zones provide exemptions from the following state and local taxes: state single business tax, state personal income tax, state education tax, real/personal property tax, local income tax, and utility user's tax.

In the first few years of being dedicated a renaissance zone, businesses are exempt from all of the above taxes. The taxes are then slowly phased in over the last few years in 25 percent increments. Thus, a person who resides in a renaissance zone that is effective for 10 years will pay none of the above taxes for the first 7 years, 25 percent of taxes in year 8, 50 percent in year 9, 75 percent in year 10, and 100 percent in year 11.

To be eligible for tax abatements, residents and businesses must meet the following criteria:

- Be a permanent resident of a zone for at least 183 consecutive days (for residents)
- Have a gross income of less than \$1 million (for residents only)
- File a Michigan Income Tax Return
- Not be delinquent on any state or local income taxes
- Not be a casino

According to information from Michigan's Economic Development Corporation, as of December 2002, the Michigan Renaissance Zone program has generated 241 new business projects resulting in more than 6,300 new jobs and \$1.7 billion in private investments in the tax-free zones.

Some criticisms of Michigan's Renaissance Zone program have been raised. First, it is argued that the zones create an unfair advantage for businesses that do not receive the tax benefits. Second, there is no proof that a business or development would not have taken place without the tax abatements. Third, businesses moving into the zones may not hire employees from the area. Finally, taxes not collected from businesses and residents in the zone might result in greater benefits if collected and distributed for other programs.

#### C. SECTION DIRECTORY:

Section 1: Names the act the Tax-Free Urban Revitalization Pilot Project Act.

Section 2: Creates an un-numbered section of statutes; provides definitions.

Section 3: Creates an un-numbered section of statutes; establishes an urban revitalization tax-free zone; provides for eligibility criteria and application procedures; specifies which taxes are exempt; and provides for an expiration date of June 30, 2013.

Section 4: Creates an un-numbered section of statutes; creates the Urban Revitalization Task Force; provides for appointments; provides for duties and responsibilities; provides for task force staff; and requires reports.

Section 5: Creates an un-numbered section of statutes; requires the office of Policy Analysis and Government Accountability to review and evaluate the pilot project and report to the Legislature by January 15, 2012.

Section 6: Provides that the act shall take effect upon becoming law.

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

#### A. FISCAL IMPACT ON STATE GOVERNMENT:

##### 1. Revenues:

There will be an indeterminate reduction in the amount of taxes collected from businesses in the tax-free zone.

##### 2. Expenditures:

The Department of Revenue estimates that there will be costs incurred in FY 2003-04 in the amount of \$198,555 and in FY 2004-05 and FY 2005-06, DOR estimates the costs to be \$39,366.

#### B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

##### 1. Revenues:

Revitalizing an urban zone may increase local revenues.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Creating tax-free urban revitalization zones will likely be an incentive for a business to move to, expand, or remain in the zone.

D. FISCAL COMMENTS:

None.

### **III. COMMENTS**

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The bill does not require counties or municipalities to take an action requiring the expenditure of funds, does not reduce the authority of counties or municipalities to raise revenues in the aggregate, and does not reduce the percentage of state tax shared with counties or municipalities.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

The Department of Revenue has reviewed the bill and has provided suggestions to the sponsor and committee staff for amending the bill.

### **IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES**