

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** HB 779 w/CS Enterprise zones

**SPONSOR(S):** Farkas

**TIED BILLS:** **IDEN./SIM. BILLS:**

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REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) <u>Workforce and Economic Development (Sub)</u>	<u>5 Y, 0 N</u>	<u>Winker</u>	<u>Whitfield</u>
2) <u>Commerce</u>	<u>15 Y, 0 N w/CS</u>	<u>Winker</u>	<u>Whitfield</u>
3) <u>Finance &amp; Taxation</u>	<u>23 Y, 0 N w/CS</u>	<u>Overton</u>	<u>Diez-Arguelles</u>
4) _____	_____	_____	_____
5) _____	_____	_____	_____

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### SUMMARY ANALYSIS

The bill amends s. 290.00675, F.S., to authorize an enterprise zone with a population between 235,000 and 260,000 residents to expand to include an additional 25 acres. According to the Office of Tourism, Trade, and Economic Development, the enterprise zones meeting these population limitations are the St. Petersburg, Immokalee, and Leon County enterprise zones.

The bill s. 290.00676, F.S., to authorize 20 rural enterprise zones to expand their boundaries to a maximum of 20 square miles by extending the application deadline from December 30, 2000 to December 30, 2003.

The bill creates s. 290.00679, F.S., to authorize 20 rural enterprise zones to expand their boundaries to a maximum of 20 square miles. Application must be made to OTTED by December 31, 2003 and, for purposes of this section, the pervasive poverty criterion may be set aside.

The bill creates s. 290.00684, F.S., which authorizes Escambia County to apply to OTTED by December 31, 2003, for the designation of one enterprise zone encompassing an area not exceeding 20 square miles in one area or no more than three noncontiguous areas.

The estimated fiscal impact upon General Revenue is (\$0.2) million for FY 03-04. There will be a negative, but insignificant impact on State Trust Funds and local governments for FY 03-04. The total estimated fiscal impact for this bill is (\$0.2) million for FY03-04.

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

**STORAGE NAME:** h0779d.ft.doc  
**DATE:** April 25, 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:

##### **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. Based on data from the Office of Tourism, Trade, and Economic Development, there are currently 26 rural enterprise zones statewide encompassing 1,208 square miles and 111,574 residents.

##### **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. [Section 220.181, F.S.]

#### *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. [Section 220.181, F.S.]

#### *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. [Section 212.08(5)(g), F.S.]

#### *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. [Section 212.08(5)(h), F.S.]

#### *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. [Sections 212.08(15) and 166.231(8), F.S.]

#### *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. [Section 212.096, F.S.]

#### *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. [Section 205.054, F.S.]

#### *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. [Section 196.1995, F.S.]

## **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 Zones and Sales Tax Exemption**

An incentive [see above for all incentives] for all designated enterprise zones is a sales tax for building equipment used in an enterprise zone. Currently, businesses located within any enterprise zone are eligible for a sales tax refund if the unit value of the equipment is \$5,000 or more [s. 212.08(5)(h)].

According to Enterprise Florida, Inc., small businesses make up the majority of businesses located in all enterprise zones. The sales tax refund as currently structured cannot be assessed by the majority of businesses considering locating to or expanding in an enterprise zone.

### 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 RELOCATED BUSINESSES	JOBS CREATED	NUMBER OF ZONES	STATE INCENTIVES	LOCAL 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.

### Changes Made by the Bill

The bill amends s. 290.00675, F.S., to authorize an enterprise zone with a population between 235,000 and 260,000 residents to expand to include an additional 25 acres. According to the Office of Tourism, Trade, and Economic Development, the enterprise zones meeting these population limitations are the St. Petersburg, Immokalee, and Leon County enterprise zones.

The bill s. 290.00676, F.S., to authorize 20 rural enterprise zones to expand their boundaries to a maximum of 20 square miles by extending the application deadline from December 30, 2000 to December 30, 2003.

The bill creates s. 290.00679, F.S., to authorize 20 rural enterprise zones to expand their boundaries to a maximum of 20 square miles. Application must be made to OTTED by December 31, 2003 and, for purposes of this section, the pervasive poverty criterion may be set aside.

The bill creates s. 290.00684, F.S., which authorizes Escambia County to apply to OTTED by December 31, 2003, for the designation of one enterprise zone encompassing an area not exceeding 20 square miles in one area or no more than three noncontiguous areas.

### C. SECTION DIRECTORY:

Section 1: Amends section 290.00675, F.S.; increases the maximum population for an enterprise zone eligible under this section from 245,000 to 260,000.

Section 2: Amends subsection (3) of section 290.00676, F.S.; related to amending rural enterprise zone boundaries; extends the deadline for requesting to amend rural enterprise zone boundaries from December 30, 2001, to December 31, 2003.

Section 3: Creates s. 290.00679, F.S., to authorize 20 rural enterprise zones to expand their boundaries to a maximum of 20 square miles. Application must be made to OTTED by December 31, 2003 and, for purposes of this section, the pervasive poverty criterion may be set aside.

Section 4: Creates section 290.00684, F.S.; authorizes Escambia County to apply to the Office of Tourism, Trade, and Economic Development for the designation on one enterprise zone with certain specifications.

Section 5: The bill takes effect upon becoming law.

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

### A. FISCAL IMPACT ON STATE GOVERNMENT:

#### 1. Revenues:

2003-04

Issue	<u>General Revenue</u>		<u>State Trust</u>		<u>Local Trust</u>		<u>Total</u>	
	<u>Cash</u>	<u>Recurr</u>	<u>Cash</u>	<u>Recurr</u>	<u>Cash</u>	<u>Recurr</u>	<u>Cash</u>	<u>Recurr</u>
Enterprise Zones-- Escambia County	-0.1	-0.1	(*)	(*)	(*)	(*)	-0.1	-0.1
Enterprise Zones-- Rural Enterprise Zones	(*)	-0.1	(*)	(*)	(*)	(*)	(*)	-0.1
Enterprise Zones - increase population to 260,000	-0.1	-0.3	(*)	(*)	(*)	(*)	-0.1	-0.3
<b>Totals</b>	-0.2	-0.5			(*)	(*)	-0.2	-0.5

#### 2. Expenditures:

None.

### B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

#### 1. Revenues:

See table above.

#### 2. Expenditures:

None.

### C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Businesses located within the designated enterprise zone will be eligible to claim tax incentives when hiring zone residents or making capital investments within the zone.

D. FISCAL COMMENTS:

The Office of Tourism, Trade, and Economic Development and the Department of Revenue do not assign any additional costs for administering the applicable provisions of this bill.

### 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 that counties or municipalities have 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:

None.

### IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES

On April 7, 2003, the Workforce and Economic Development Subcommittee adopted four amendments to HB 779 which do the following:

- The first amendment creates a new section of law (s. 290.00684) which authorizes Escambia County to apply to the Office of Tourism, Trade, and Economic Development (OTTED) by December 31, 2003, for the designation of one enterprise zone encompassing an area not exceeding 20 square miles in one area or no more than three noncontiguous areas.
- The second amendment authorizes Okaloosa County by December 31, 2003, to request OTTED to amend the boundaries of an enterprise zone by no more than 1 square mile.
- The third amendment amends s. 212.08, F.S., by reducing the minimum purchase price of business property from \$5,000 to \$500 for purposes of an exemption from a tax for business property used in enterprise zones and also amends s. 290.00676, F.S., by extending the deadline for requests to OTTED to amend rural enterprise zone boundaries.
- The fourth amendment authorizes any county to apply to OTTED to amend the boundaries of an existing enterprise zone and replace an area of no more than 75 acres not suitable for development with an area of the same area suitable for development. The new area must be contiguous to the existing enterprise zone and a zoological park and the county must have completed a master plan for the development of the area. The bill requires OTTED to approve the requested amendment effective January 1, 2004.

On April 14, 2003, the Commerce Committee adopted the above four amendments to HB 779 and also adopted a fifth amendment which authorizes the governing body of Gadsden County to apply to the Office of Tourism, Trade, and Economic Development by December 31, 2003, to amend the boundaries of an enterprise zone. HB 779 passed as amended and as a committee substitute.

On April 25, 2003, the Committee on Finance & Tax adopted an amendment that removed the following provisions from the bill:

- The amendment to s. 212.08(5)(h), F.S., to lower from \$5,000 to \$500 the price of items of business property purchased for use in an enterprise zone which are exempt from sales taxes.
- The authorization for any county to apply to the Office of Tourism, Trade, and Economic Development (OTTED) to amend the boundaries of an existing enterprise zone and replace an area of no more than 75 acres not suitable for development with an area of the same area suitable for development. The new area must be contiguous to the existing enterprise zone and a zoological park and the county must have completed a master plan for the development of the area. The bill requires OTTED to approve the requested amendment effective January 1, 2004.
- The amendment to s. 290.00693, F.S., to authorize the governing body of Gadsden County to apply to the Office of Tourism, Trade, and Economic Development to amend the boundaries of an enterprise zone for the purpose of replacing areas not suitable for development.
- The amendment s. 290.00698, F.S., to authorize Okaloosa County by December 31, 2003, to request OTTED to amend the boundaries of an enterprise zone by no more than one square mile.