

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

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

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Prepared By: Community Affairs Committee

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BILL: CS/CS/SB 1598

SPONSOR: Community Affairs Committee, Commerce and Consumer Services Committee, Senators Dockery and Baker

SUBJECT: Enterprise zones

DATE: April 5, 2005

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Barrett	Cooper	CM	<b>Fav/CS</b>
2.	Herrin	Yeatman	CA	<b>Fav/CS</b>
3.			GE	
4.			TA	
5.				
6.				

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## I. Summary:

The committee substitute for committee substitute (CS) authorizes the following local governments to apply to the Office of Tourism, Trade, and Economic Development (OTTED) for the designation of one enterprise zone: City of Lakeland; Indian River County, the City of Vero Beach, and the City of Sebastian as joint applicants; and Sumter County.

The committee substitute creates sections 290.00710 and 290.0073 of the Florida Statutes.

## II. Present Situation:

### Florida Enterprise Zone Program

The Florida Enterprise Zone Act of 1994 (act), codified in ss. 290.001-290.016, F.S., was created:

to provide the necessary means to assist local communities, their residents, and the private sector in creating the proper economic and social environment to induce the investment of private resources in productive business enterprises located in severely distressed areas and to provide jobs for residents of such areas.<sup>1</sup>

Under the act, areas of the state meeting specified criteria, including suffering from pervasive poverty, unemployment, and general distress, have been designated as enterprise zones. The act

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<sup>1</sup> Section 290.003, F.S.

established a process for the nomination and designation of a maximum of 20 enterprise zones.<sup>2</sup> Subsequent to the 1994 act, however, the Legislature has designated additional zones. Currently, there are 51 state enterprise zones, including 26 rural zones and 25 urban zones. There are also three Federal Enterprise Communities and two Federal Empowerment Zones. Certain federal, state, and local incentives are authorized to induce private businesses to invest in these enterprise zones.

### ***State Incentives***

The program's incentives are as follows:

- Jobs credit against corporate income taxes: Businesses located in an enterprise zone which pay Florida corporate income taxes are authorized to receive a tax credit against their tax liability 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.<sup>3</sup>
- Jobs credit against sales tax: Businesses located within an enterprise zone which 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.<sup>4</sup>
- Property tax credit: 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.<sup>5</sup>
- Sales tax refund for building materials: A refund is available for sales taxes paid on the purchase of building materials used in the rehabilitation of real property 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.<sup>6</sup>
- Sales tax refund for business property used in an enterprise zone: 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.<sup>7</sup>

### ***Local Incentives***

The following are examples of local incentives:

- Sales tax exemption for electrical energy used in an enterprise zone: A sales tax exemption (state and local taxes) is available to qualified businesses located in an enterprise zone on the purchase of electrical energy. This exemption is only available if

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<sup>2</sup> Sections 290.0055 and 290.0065, F.S.

<sup>3</sup> Section 220.181, F.S.

<sup>4</sup> Section 212.096, F.S.

<sup>5</sup> Section 220.182, F.S.

<sup>6</sup> Section 212.08(5)(g), F.S.

<sup>7</sup> Section 212.08(5)(h), F.S.

- the municipality in which the business is located has passed an ordinance to exempt the municipal utility taxes on such business.<sup>8</sup>
- 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.<sup>9</sup>
  - 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.<sup>10</sup>
  - Local impact fee abatement or reduction, or low-interest or interest-free loans, or grants to businesses.<sup>11</sup>

### ***State Incentive Use and Job Creation***

The OTTED has reported the following regarding activity in enterprise zones:

FISCAL YEAR	NEW OR RELOCATED BUSINESSES	JOBS CREATED	NUMBER OF ZONES	STATE INCENTIVES USED
2003-2004	3,241	7,702	51	\$7,201,262
2002-2003	2,268	5,057	51	\$5,401,583
2001-2002	1,244	5,630	47	\$6,739,551
2000-2001	654	6,394	34	\$4,746,396
1999-2000	766	5,141	34	\$5,458,835
1998-1999	776	5,305	32	\$5,170,899
1997-1998	151	3,572	31	\$4,495,218
1996-1997	434	4,573	30	\$4,449,941
1995-1996	128	2,188	19	\$3,437,344

As the chart shows, incentive use and job creation has not always increased as the number of zones has increased over time. Of note, in the 2002-2003 annual report, 14 of the 51 zones reported no incentive activity in their respective zones, although the Department of Revenue is unable to track use of the jobs tax credit or the property tax credit against corporate income tax.

### ***State Agencies***

The OTTED administers the Florida Enterprise Zone Act; the Department of Revenue reviews and approves or denies a business's application for enterprise zone tax credits; and Enterprise Florida, Inc., is responsible for marketing the act.

<sup>8</sup> Sections 212.08(15) and 166.231(8), F.S.

<sup>9</sup> Section 196.1995, F.S.

<sup>10</sup> Section 205.054, F.S.

<sup>11</sup> Section 290.0057(1)(e), F.S.

***Program Expiration***

The act is scheduled for repeal on December 31, 2005, as provided by s. 37, ch. 94-136, L.O.F. Although most of the statutory authority for the act expires on December 31, 2005, some of the state tax incentives for the act are scheduled to expire on June 30, 2005. (See, for example, ss. 212.08(5)(q) and 220.181(9), F.S.)

**III. Effect of Proposed Changes:**

**Section 1** creates s. 290.00710, F.S., to authorize the City of Lakeland to apply to the Office of Tourism, Trade, and Economic Development (OTTED) for the designation of one enterprise zone within the City of Lakeland. This section provides that the application must be submitted by December 31, 2005, and comply with s. 290.0055, F.S. The enterprise zone may not exceed ten square miles. OTTED is responsible for establishing the initial effective date of the enterprise zone upon designation.

**Section 2** creates s. 290.0073, F.S., to authorize Indian River County, the City of Vero Beach, and the City of Sebastian to jointly apply to OTTED for the designation of one enterprise zone. The enterprise zone may not exceed ten square miles. The application must be submitted by December 31, 2005, and comply with s. 290.0055, F.S. OTTED is responsible for establishing the initial effective date of the enterprise zone upon designation.

**Section 3** creates s. 290.0074, F.S., to authorize Sumter County to apply to OTTED for the designation of one enterprise zone not to exceed 10 square miles. The application must be submitted by December 31, 2005, and comply with s. 290.0055, F.S. OTTED is responsible for establishing the initial effective date of the enterprise zone upon designation.

**Section 4** provides an effective date of July 1, 2005.

**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:**

Businesses located within the new enterprise zones authorized in this committee substitute may be eligible for a variety of state and local tax incentives. At this time, the fiscal impact this committee substitute has on state and local revenues has not been estimated.

**B. Private Sector Impact:**

To the extent the new enterprise zones encourage businesses to make investments in the zones, the businesses may benefit from a variety of state and local economic incentives.

**C. Government Sector Impact:**

The OTTED will incur costs related to the review of the applications for the new enterprise zones.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.



## **VIII. Summary of Amendments:**

None.

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

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