

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: PCB FTC 10-11 Economic Development

SPONSOR(S): Finance & Tax Council

TIED BILLS: IDEN./SIM. BILLS:

Table with 4 columns: REFERENCE, ACTION, ANALYST, STAFF DIRECTOR. Row 1: Orig. Comm.: Finance & Tax Council, Wilson, Langston. Rows 2-6 are empty.

SUMMARY ANALYSIS

This bill amends, refines, creates and funds an assortment of economic development measures.

This bill enhances the current sales tax exemption for machinery and equipment purchases by certain expanding businesses found in s. 212.08(5)(b)6.b., F.S., by redefining the word "productive output" to include units produced in a single product line.

This bill also amends s. 212.08(5)(g), F.S., to exclude condominium parcels or condominium property from the definition of "real property" for purposes of qualifying for refunds of sales taxes paid on building materials used in the construction and rehabilitation of real property located within in an enterprise zone.

This bill creates s. 288.0659, F.S., providing for Local Government Distressed Area Matching Grants. These grants, which will be administered by the Office of Tourism, Trade, and Economic Development within the Governor's Office (Office), will match expenditures by local governments to attract and retain business in Florida.

This bill provides a \$5 recurring and a \$5 million nonrecurring appropriation from the General Revenue Fund to the Office to address business infrastructure needs to assist in the development and management of state-of-the-art facilities for space business that will create high-technology, high-wage-earning jobs.

This bill also provides a \$3.2 million nonrecurring General Revenue Fund appropriation to the Office exclusively for Space Florida to retrain workers due to the retirement of the Space Shuttle Program.

This bill further provides \$2 million nonrecurring General Revenue Fund appropriation to the Office to provide local government distressed area matching grants, pursuant to s. 288.0659, F.S.

The 2010 Revenue Estimating Conference has adopted the following estimates: Enhancements to machinery and equipment exemption (212.08(5)(b))= -\$0.5 million General Revenue in FY 2010-2011 (-\$0.5 million recurring), -\$0.1 million to local governments (-\$0.1m recurring); Narrowing of "real property" definition for enterprise zone exemptions = +\$3.2 million General Revenue in FY 2010-2011 (+\$13.2 million recurring), +\$1.3 million to local governments (+\$5.0 million recurring).

This act shall take effect July 1, 2010.

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

STORAGE NAME: pcb11.FTC.doc
DATE: 3/24/2010

## HOUSE PRINCIPLES

Members are encouraged to evaluate proposed legislation in light of the following guiding principles of the House of Representatives

- Balance the state budget.
- Create a legal and regulatory environment that fosters economic growth and job creation.
- Lower the tax burden on families and businesses.
- Reverse or restrain the growth of government.
- Promote public safety.
- Promote educational accountability, excellence, and choice.
- Foster respect for the family and for innocent human life.
- Protect Florida's natural beauty.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. EFFECT OF PROPOSED CHANGES:

#### **Exemptions for Manufacturing Machinery Equipment (MME) and Enterprise Zones Purchases**

##### Present Situation

##### **Manufacturing Machinery Equipment**

Florida is home to nearly 17,000 manufacturing establishments that employ more than 388,000 people earning more than \$18.4 billion annually, for an average annual wage of approximately \$47,457.<sup>1</sup> Under certain conditions, the purchase of manufacturing or industrial machinery and equipment is exempt from the sales and use tax. Those exemptions include provisions in s. 212.08(5)(b), F.S., for:

- Manufacturing machinery and equipment purchased for exclusive use by a new business in spaceport activities or for use in new businesses that manufacture, process, compound, or produce for sale items of tangible personal property at fixed locations in this state, and
- Manufacturing machinery and equipment purchased for exclusive use by an expanding facility engaged in spaceport activities or for use in expanding manufacturing facilities or plant units that manufacture, process, compound, or produce for sale items of tangible personal property at fixed locations in this state, when the machinery and equipment are used to increase the productive output of the expanded facility or business by not less than 10 percent.

##### **Enterprise Zones**

The Florida Enterprise Zone Program was created to encourage economic development in economically distressed areas of the state by providing incentives and inducing private investment. Currently, Florida has 57 enterprise zones. Florida's enterprise zones qualify for various incentives from corporate income tax and sales and use tax liabilities.

Between October 1, 2007, and September 30, 2008, new businesses numbering 2,719 moved into or were created in enterprise zones and 9,600 new jobs were created by businesses in enterprise zones.<sup>2</sup>

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<sup>1</sup> U.S. Department of Labor, Bureau of Labor Statistics, cited by Enterprise Florida, Inc. <http://www.eflorida.com/Manufacturing.aspx?id=7960>. Last visited March 24, 2010.

<sup>2</sup> Florida Enterprise Zone Program Annual Report, October 1, 2007 - September 30, 2008. Published March 1, 2009.

More than \$40.3 million in state and nearly \$22.5 million in local-government financial incentives were approved during that same period.

Available state sales tax incentives for enterprise zones include:

- Building Materials Used in the Rehabilitation of Real Property Located in an Enterprise Zone.
- Business Equipment Used in Enterprise Zones.
- Rural Enterprise Zone Jobs Credit against Sales Tax.
- Urban Enterprise Zone Jobs Credit against Sales Tax.
- Business Property Used in an Enterprise Zone.
- Community Contribution Tax Credit.
- Electrical Energy Used in an Enterprise Zone.

By far the most popular of the state enterprise zone incentives is the building materials tax refund; in FY 07-08, \$25.6 million of the \$40.3 million in state incentives paid was for building material refunds. This trend appears to be continuing, even in a down year statewide for construction: more than \$38.6 million in state sales tax refunds have been applied for in the first 6 months of FY 09-10.<sup>3</sup> As in years past, condominium construction/rehabilitation accounts for the majority of building materials tax refunds – \$37.2 million of the \$38.6 million already claimed.<sup>4</sup>

### Effect of Proposed Changes

This bill amends s. 212.08(5)(b)6.b., F.S., redefining the word “productive output” to include units produced in a single product line in the sales tax exemption on certain machinery and equipment. This tax exemption can be utilized by an expanding facility for spaceport activities or in expanding manufacturing facilities. This provision also allows greater flexibility in choosing the time periods used to assess whether or not productive output has actually expanded, thereby making it easier to qualify for the exemption.

This bill also amends s. 212.08(5)(g), F.S., to exclude condominium parcels or condominium property from the definition of “real property” for purposes of qualifying for refunds of sales taxes paid on building materials used in the construction and rehabilitation of real property located within in an enterprise zone.

## **Local Government Distressed Areas Matching Grants**

### Present Situation

Chapter 125, F.S., provides the legislature finds that the state faces increasing competition from other states and countries for the location of private enterprise. The chapter also provides that both the state and local governments understand the need to enhance and expand economic activity in our counties in order to provide job opportunities and improve the welfare of all Floridians.

Commercial development and capital improvement programs found in ch. 288, F.S., provide various tools to local government to partner with the state for strategic economic initiatives. These resources will further develop long term growth within local communities and further assist communities in critical need.

### Effect of Proposed Changes

This bill creates s. 288.0659, F.S., providing for Local Government Distressed Area Matching Grants. These grants, which will be administered by the Office of Tourism, Trade, and Economic Development within the Governor’s Office (Office), will match expenditures by local governments to attract and retain business in Florida. This bill establishes that local governments may apply for grants to match “qualified

<sup>3</sup> Data provided by the Department of Revenue at the February 26, 2010 Revenue Estimating Conference.

<http://edr.state.fl.us/conferences/revenueimpact/pdf/page%2084-86.pdf>

<sup>4</sup> Ibid.

expenditures.” These expenditures include impact and permit fees, direct incentive payments, expenditures for infrastructure improvements benefiting a site redevelopment for a business, land purchases, or construction or renovation of a building for a specific business. The bill also authorizes that the qualifying matching grants are to be reviewed by the Office, giving priority to the following evaluation criteria:

- Presence and degree of pervasive poverty, unemployment, and general distress;
- Reliance on the local government expenditure as and inducement for the business’s location decision;
- Number of new full time jobs created;
- Average hourly wage for jobs created;
- Amount of capital investment to be made by the business;

The bill states that matching grants funds may not be utilized to relocate a business from one community to another, unless the Office determines the business will otherwise leave the state or has a compelling economic rationale for relocating. The funds may also not be used to supplant matching commitments required of the local government for other state or federal government incentives.

The bill provides that grant allocations can be 50 percent of qualified expenditures or 50 thousand dollars, whichever is less. The Office will provide a final grant award when the local government provides sufficient information to determine the actual qualified expenditures. The Office will make final grant awards to the extent funds are appropriated from the Legislature.

This bill further provides an appropriation of \$2 million in nonrecurring General Revenue to the Office to provide local government distressed area matching grants, pursuant to s. 288.0659, F.S.

## **Space Florida**

### **Present Situation**

Space Florida is responsible for promoting the growth and development of a sustainable aerospace industry, space infrastructure, and educational opportunities for people interested in working in the space and aerospace industry. Commercial space flight is an important part of Space Florida’s vision for space and aerospace operations for Florida’s future. Space Florida’s 2010 Spaceport Master Plan details the current commercial space flight landscape in the state. “Over the past ten years about 32% of all successful commercial orbital launches in the world occurred within the US. In the same time only 37% of all successful orbital commercial launches from the US occurred in Florida.”<sup>5</sup> Space Florida believes the state is uniquely positioned to become a more dominant player in the commercial space industry.

However, numerous changes have occurred in the space industry as NASA has begun to move towards the end of the space shuttle program. Members of Congress, the Governor, Space Florida, Brevard County, economic development organizations, as well as many others have been looking for solutions to alleviate the possibility that many Florida aerospace jobs and businesses could be lost.

### **Effect of Proposed Changes**

This bill provides an appropriation of \$5 million in nonrecurring and \$5 million in recurring General Revenue to the Office to address business infrastructure needs to assist in the development and management of state-of-the-art facilities for space business that will create high-technology, high-wage-earning jobs.

This bill further provides an appropriation of \$3.2 million in nonrecurring General Revenue to the Office exclusively for Space Florida to retrain workers due to the retirement of the Space Shuttle Program.

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<sup>5</sup> Space Florida 2010 Spaceport Master Plan. Found at:

[http://www.spaceflorida.gov/index.php?option=com\\_content&view=article&id=111](http://www.spaceflorida.gov/index.php?option=com_content&view=article&id=111) (last visited 3/24/2010)

**B. SECTION DIRECTORY:**

**Section 1:** Amends s. 212.08(5)(b)6.b., F.S., redefining the word “productive output. Amends s. 21.08(5)(g), F.S., redefining the word “real property”.

**Section 2:** Creates s. 288.0659, F.S., establishing local government distressed area matching grants.

**Section 3:** Provides an appropriation to the Office for the development and management of facilities for space businesses, further providing creating high technology and high-wage-earning jobs.

**Section 4:** Provides an appropriation to the Office for Space Florida

**Section 5:** Provides an appropriation to the Office for the local government distressed area matching grants created in s. 288.0659, F.S.

**Section 6:** This act shall take effect July 1, 2010.

**II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

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

1. Revenues:

See FISCAL COMMENTS.

2. Expenditures:

This bill provides the following appropriations:

- \$5 million in nonrecurring and \$5 million in recurring General Revenue to the Office to address business infrastructure needs to assist in the development and management of state-of-the-art facilities for space business that will create high-technology, high-wage-earning jobs.
- \$3.2 million in nonrecurring General Revenue to the Office exclusively for Space Florida to retrain workers due to the retirement of the Space Shuttle Program.
- \$2 million in nonrecurring General Revenue to the Office to provide local government distressed area matching grants, pursuant to s. 288.0659, F.S.

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

1. Revenues:

See FISCAL COMMENTS.

2. Expenditures:

See FISCAL COMMENTS.

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

The bill will reduce costs for certain expanding manufacturing and space-related businesses, and provide additional resources to develop and attract business in Florida.

**D. FISCAL COMMENTS:**

- On February 26, 2010, the Revenue Estimating Conference adopted that the narrowing of the “real property” definition for enterprise zone exemptions would increase General Revenue collections by \$3.3 million in FY 2010-2011 (+\$13.2 million recurring), and local government revenues by \$1.3 million (+\$5.0 million recurring).

- On March 18, 2010, the Revenue Estimating Conference adopted that the enhancements to the machinery and equipment exemption (212.08(5)(b)) would reduce General Revenue by \$0.5 million in FY 2010-2011 (\$0.5 million recurring), and local government revenue by \$0.1 million (\$0.1 million recurring).

### **III. COMMENTS**

#### **A. CONSTITUTIONAL ISSUES:**

##### **1. Applicability of Municipality/County Mandates Provision:**

Not applicable.

##### **2. Other:**

None.

#### **B. RULE-MAKING AUTHORITY:**

None.

#### **C. DRAFTING ISSUES OR OTHER COMMENTS:**

None.

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