

oppaga Special Review

December 2003



Report No. 03-64

Enterprise Zone Pilot Project Incentives Not Widely Used, But Progress Made in Revitalizing Project Area

at a glance

The Enterprise Zone Pilot Project was created in 1999 to encourage business investment and improve general social and economic conditions within a small, distressed local area. A distressed inner city mall in Jacksonville was designated as the pilot project area.

The pilot project has had a very limited effect. Only one business qualified to receive the incentives offered under the project. However, local efforts to revitalize the area have had success.

Also, some chain-based businesses located in the pilot project area that were not eligible for incentives under the pilot project received incentives under the state's Enterprise Zone Program.

Scope

Section 290.00689(6), *Florida Statutes*, requires the Office of Program Policy Analysis and Government Accountability to evaluate the effectiveness and viability of the enterprise zone pilot project created in 1999. This report informs the Legislature of the Enterprise Zone Pilot Project's progress and describes the status of efforts to revitalize the pilot project area.

Background

Enterprise Zone Pilot Project

Legislature created the Enterprise Zone Pilot Project in 1999

In 1999, the Legislature directed the Governor's Office of Tourism, Trade and Economic Development (OTTED) to designate one enterprise zone pilot project area contained within an existing state enterprise zone.¹ The pilot project was intended to help encourage specific types of businesses to locate in the pilot project area and provide employment opportunities for area residents.

The law provided that an area had to meet specific qualifications described below to be eligible for designation as the pilot project.

- The area must be contained within an enterprise zone that is composed of one contiguous area in a community with a population of 150,000 or more persons.
- The local government must grant economic development ad valorem tax exemptions and electrical energy public service tax exemptions in the enterprise zone.

¹ Chapter 99-251, *Laws of Florida*, s. 104.

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- The local government must develop a plan and commit at least \$5 million for revitalizing the pilot project area or an area that includes the pilot project area.
- The pilot project area must be contiguous and no more than 70 acres so that state assistance can be effectively concentrated on revitalizing the acute area of economic distress.
- The pilot project area must contain a diverse group of facilities or space for a mix of retail, restaurant, or service related businesses necessary to an overall revitalization of surrounding neighborhoods.

The law also specified eligibility requirements for businesses located in the pilot project area. To qualify for the pilot project's tax credits, businesses must

- enter into a contract governing the lease of commercial space in a facility located within the pilot project area;
- begin operations in a facility located in the enterprise zone between July 1, 1999, and July 1, 2000; and
- be engaged in activities classified under three Standard Industrial Classification (SIC) codes 5311, 5399, and 7832.²

The law specified that no more than four businesses could be eligible for tax credits under the pilot project.

Eligible businesses could apply for credits against corporate income or sales and use taxes due in a taxable year. The total amount of tax credits that could be awarded in the pilot project area was capped at \$1 million annually. The credit was to be computed as \$5,000 times the number of full-time employees and \$2,500 times the number of part-time employees of an eligible business.

Businesses receiving tax credits under the pilot project also could receive tax incentives available under the state's Enterprise Zone Program, including additional credits for corporate income and sales and use taxes. The credits available to businesses under the Enterprise Zone Program are different from those available under the pilot project. For example, a qualified business in a designated urban enterprise zone would be

² These codes are for department stores, general merchandise stores, and movie theaters respectively.

eligible to receive credits equivalent to 20% of the wages paid to new full-time employees who are enterprise zone residents. This credit can be applied either to a business' corporate income or sales and use tax.^{3,4}

Statutory provisions establishing the pilot project will be repealed on June 30, 2010. Sections of the *Florida Statutes* establishing the Enterprise Zone Program will be repealed December 31, 2005, unless re-enacted by the Legislature.

Jacksonville's Gateway Shopping Center designated as pilot project area

Based on the criteria specified in the law, the Office of Tourism, Trade and Economic Development identified five cities as potential applicants for the enterprise zone pilot project area (Jacksonville, Miami, Orlando, St. Petersburg, and Tampa). However, only the City of Jacksonville applied to receive the pilot project area designation.

The City of Jacksonville proposed that the Gateway Shopping Center, an aging mall located in a 55-acre urban area north of downtown Jacksonville, be designated as the pilot area. The shopping center was initially built in 1958 and an enclosed mall was built on the site in 1966. In 1989, it was anchored by several national retailers, had a 95% occupancy rate, and employed approximately 1,500 people. However, over the next 10 years, the shopping center declined as many of its major tenants moved to newer suburban malls. By 1997 the Gateway Shopping Center had 30 tenants, an occupancy rate of 29%, and employed fewer than 300 people.

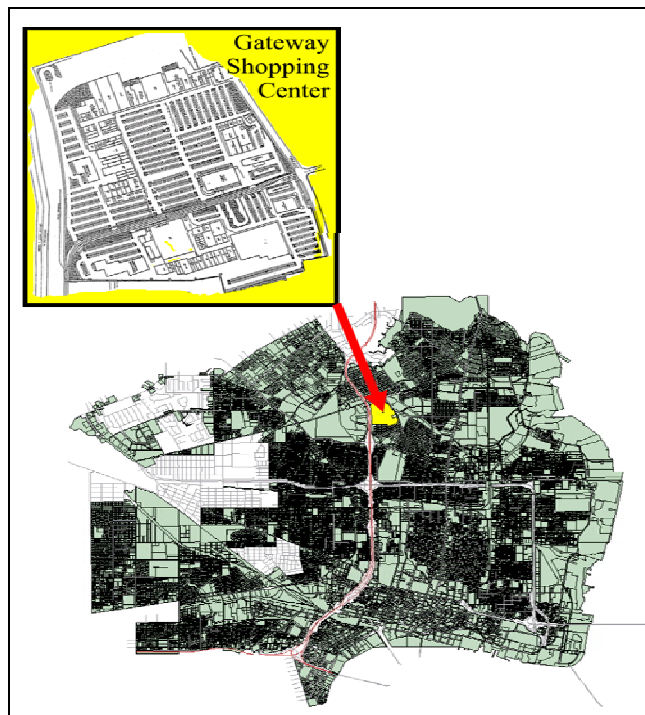
The Office of Tourism, Trade, and Economic Development subsequently designated Jacksonville's Gateway Shopping Center the enterprise zone pilot project area in June 1999.

³ The state's Enterprise Zone Program was reviewed by our office and the Senate Committee on Commerce and Economic Opportunities in 2000. See *Program Review: Use of Enterprise Zone Incentives Has Increased, but Challenges Continue*, Report No. 99-43, March 2000; and *Review and Evaluation of the Enterprise Zone Program*, Senate Committee on Commerce and Economic Opportunities, Interim Project Report 2001-029, November 2000.

⁴ For more information on the incentives available to businesses under the Enterprise Zone Program, see ss. 290.001-290.016, *Florida Statutes*, and the Enterprise Zone website maintained by Enterprise Florida, Inc., www.floridaenterprisezone.com.

Exhibit 1 shows the location of the pilot project area within the City of Jacksonville's enterprise zone.

**Exhibit 1
Pilot Project Area Within Jacksonville's Enterprise Zone**



Source: City of Jacksonville.

The other two businesses that applied for tax credits did not qualify because OTTED determined that they did not engage in activities that allowed them to be classified under an eligible SIC code.

Progress has been made in revitalizing the pilot project area

Although little use was made of the pilot project's incentives, progress has been made in revitalizing the project area. The shopping center now has 108 tenants, an occupancy rate of 92%, and employs approximately 1,200 people. Current tenants include a large chain-based grocery store; a chain-based drug store; a chain-based video rental store; local small businesses; offices of several state and local government agencies, a charter school, and not-for-profit organizations.

Some businesses in the Gateway Shopping Center that were not eligible for incentives under the pilot project obtained tax credits under the Enterprise Zone Program. Department of Revenue data indicates one business in the shopping center received enterprise zone sales and use tax credits in 2002. Also, City of Jacksonville economic development officials told us that two businesses received corporate income tax credits.⁵

Findings

One business received tax credits under the pilot project

The use of the pilot project's incentives has been very limited. Three businesses in the pilot project area applied for tax credits, but only one of these applications was approved by OTTED. In 2000, this business was awarded a \$40,000 tax credit for seven full-time and two part-time jobs, which was applied against its corporate income tax. The business has not applied to receive tax credits under the pilot program in subsequent years.

Agency Response

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was submitted to the Governor's Office of Tourism, Trade, and Economic Development to review and respond. The director's response can be viewed in Appendix A on page 4.

⁵ The Department of Revenue does not maintain data that can be used to identify specific stores of companies receiving corporate income tax credits. The department's database only provides information on companies receiving these credits and not their individual stores.

OPPGA supports the Florida Legislature by providing evaluative research and objective analyses to promote government accountability and the efficient and effective use of public resources. This project was conducted in accordance with applicable evaluation standards. Copies of this report in print or alternate accessible format may be obtained by telephone (850/488-0021 or 800/531-2477), by FAX (850/487-3804), in person, or by mail (OPPGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475).

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Appendix A



JEB BUSH
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December 4, 2003

Mr. Gary R. VanLandingham
Interim Director
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and Government Accountability
111 West Madison Street; Suite 312
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Dear Mr. VanLandingham:

On behalf of Governor Bush, thank you for providing the Office of Tourism, Trade, and Economic Development (OTTED) the opportunity to review the preliminary findings of OPPAGA's special review on the Enterprise Zone Pilot Project Program (pursuant to section 290.00689(6), F.S.) prior to final release.

I appreciate the willingness of you and your staff to discuss elements of the preliminary report with which OTTED maintained concerns. From our discussions with OPPAGA, and based on the changes that OPPAGA has agreed to make in the final report, we are prepared to concur with the findings of the special review.

Once again, thank you for providing OTTED an opportunity to provide input on your draft report. If you have any questions, please feel free to contact Burt Von Hoff, Enterprise Zone Program Administrator or myself at (850) 487-2568.

Sincerely,

/s/ Dr. Pamella J. Dana
Director
Office of Tourism, Trade, and Economic Development

