



Florida's Enterprise Zone Program Is Similar to Those of Other States

at a glance

Most states (39) have established enterprise zone or similar programs. These programs vary widely in the number of zones established, and three entire states have been designated as enterprise zones. Most states require areas to meet certain criteria, such as having high levels of poverty, unemployment, and population losses, to be designated as an enterprise zone. Most states also require businesses to meet certain job creation or capital investment criteria in order to receive incentives.

Some states have implemented other types of geographically targeted incentive programs such as tax-free zones. These programs differ from typical enterprise zone programs in that they substantially reduce taxes for existing business and residents of distressed areas rather than targeting incentives to businesses relocating or expanding operations in a designated area.

Statutory provisions authorizing Florida's Enterprise Program will be repealed December 31, 2005, unless re-enacted by the Legislature.

Scope

Pursuant to s. 11.511, *Florida Statutes*, the Interim Director of the Office of Program Policy Analysis and Government Accountability initiated this project in response to a legislative request to compare Florida's enterprise zone program to those established by other states.

Background

Florida's Enterprise Zone Program was created in 1982 to provide incentives to induce private investments in economically distressed areas of the state. The program is intended to accomplish several goals, including revitalizing and rehabilitating distressed areas, encouraging businesses to locate and expand in these areas, stimulating the hiring of area residents, and enhancing the general social and economic well-being of the areas.¹

Local governments may nominate an area that meets specific criteria to be designated as an enterprise zone if the Legislature authorizes a new zone. Proposed zones must be a specific area that is targeted for redevelopment on the basis of high unemployment, poverty, or other evidence of economic weakness. Typically, designated areas are not to exceed 20 square miles or include any portion of a central business district unless the poverty rate for each census geographic block group in the district is greater than 30%.²

¹ Sections 290.001-290.016, *F.S.*, authorize the creation of enterprise zones in Florida and specify goals and criteria for the program.

² The Legislature has approved legislation authorizing federally designated empowerment zones and enterprise communities as state enterprise zones without regard to size.

Information Brief

Prior to making application for an enterprise zone designation, the local government must

- find that the area "chronically exhibits extreme and unacceptable levels of poverty, unemployment, physical deterioration, and economic disinvestment";
- determine that the rehabilitation, conservation, or redevelopment of an area is in the interest of the public health, safety, and welfare of the residents of the area;
- determine that private sector investment is necessary to build or rebuild the economic viability of an area;
- create an enterprise zone development agency; and
- create and adopt a strategic plan for revitalizing the area.

The Office of Tourism, Trade, and Economic Development (OTTED) in the Executive Office

of the Governor is responsible for approving enterprise zone designation applications.³

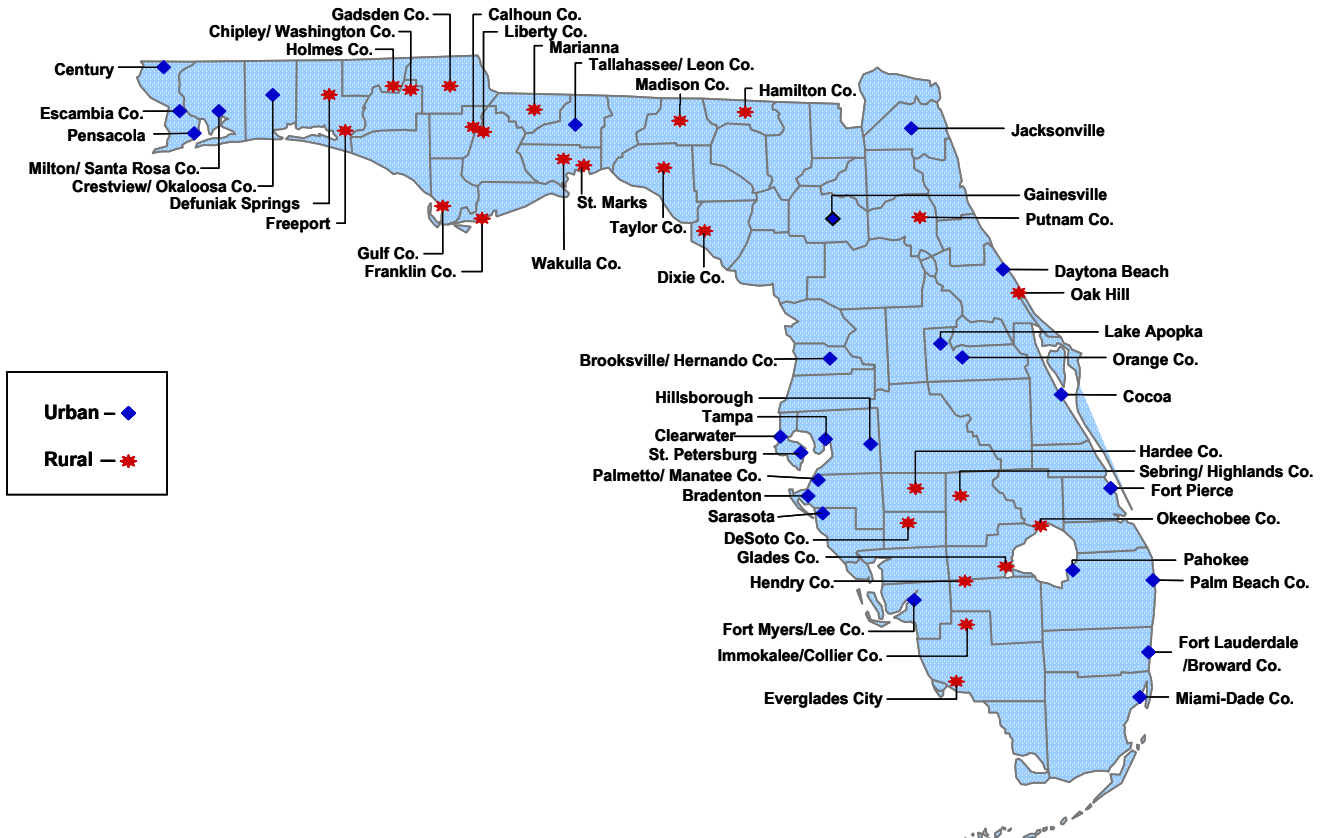
OTTED also approves changes in enterprise zone boundaries when authorized by the Legislature, and submits annual reports on the program to the Governor and Legislature. OTTED also provides technical support to local zone coordinators on how to manage and promote the program, assists businesses in using program benefits, and monitors the activities of local zones through periodic site visits.

The Florida Department of Revenue approves applications for tax credits under the program. In addition, Enterprise Florida, Incorporated, is charged with marketing Florida's Enterprise Zone Program.

As of February 2004, OTTED had designated 52 enterprise zones, including 26 urban and 26 rural zones (see Exhibit 1 for a map of the zones).

³ Section 290.0065, F.S.

**Exhibit 1
Florida's 52 Enterprise Zones Are Located Throughout the State**



Source: Office of Tourism, Trade, and Economic Development.

To encourage investment in enterprise zones, the state provides various tax incentives to businesses that are located or investing in these areas. In addition, local governments may offer additional tax benefits and regulatory relief to encourage private investment in zones. (See Exhibit 2.)

Exhibit 2 Florida's Enterprise Zone Program Provides a Variety of Incentives to Encourage Private Investment

State Program Incentives

Enterprise Zone Jobs Tax Credit (Sales and Use Tax). Businesses located in a zone that collect and pay Florida sales and use tax are allowed a monthly credit against their sales tax due on wages paid to new employees who have been employed for at least three months and are residents of an enterprise zone.

Enterprise Zone Jobs Tax Credit (Corporate Income Tax). Businesses located in a zone that pay Florida Corporate Income Tax are allowed a corporate income tax credit for wages paid to new employees who have been employed for at least three months and are residents of a Florida enterprise zone.

Enterprise Zone Property Tax Credit (Corporate Income Tax). New or expanded businesses located in a zone are allowed a credit on their Florida Corporate Income Tax equal to 96% of ad valorem taxes paid on the new or improved property.

Sales Tax Refund for Building Materials. A refund is available for sales taxes paid on the purchase of building materials used to rehabilitate real property located in a zone.

Sales Tax Refund for Business Machinery and Equipment Used in an Enterprise Zone. A refund is available for sales taxes paid on the purchase of certain business property that is used exclusively in a zone for at least three years.

Sales Tax Exemption for Electrical Energy Used in an Enterprise Zone. A 50% sales tax exemption is available to businesses located in a zone on the purchase of electrical energy. The exemption is only available if the municipality in which the business is located passed an ordinance to exempt qualified enterprise zone businesses from 50% of the municipal utility tax.

Community Contribution Tax Credit Program. Businesses located anywhere in Florida are allowed a 50% credit on Florida Corporate Income Tax or Insurance Premium Tax as well as a sales tax refund for donations made to approved community development projects

Local Program Incentives

Reduction in occupational license fees
 Reduction in building permit or land development fees
 Utility tax abatement
 Facade/commercial rehabilitation grants
 Local option economic development property tax exemptions
 Ad valorem tax exemptions
 Local funds for capital projects

Source: Office of Tourism, Trade, and Economic Development.

Questions and Answers —

How many states have established enterprise zone programs?

As shown in Exhibit 3, most (39) states have established enterprise zone or similar programs. While some state programs (like Florida's) have existed since the early 1980s, other states have only recently created enterprise zone programs—Maine's Pine Tree Opportunity Zone Program was established in 2003.

How many enterprise zones do other states have?

As shown in Exhibit 3, there is wide variation in the number of enterprise zones in a state.⁴

- Three states have designated their entire state as an enterprise zone (Arkansas, Kansas, and South Carolina).
- Most states with enterprise zone or similar programs have 50 or fewer zones.
- Four states (Ohio, Texas, Oklahoma, and Louisiana) have more than 100 zones, with Louisiana having 1,740 zones.

Florida presently has 52 enterprise zones.

⁴ Some states, such as Wisconsin, have site-specific zones meaning that a zone is the actual physical location of the business entity receiving program incentives.

**Exhibit 3
Thirty-Nine States Have Created Enterprise Zone Programs**

State	Program(s)	Number of Zones	State	Program(s)	Number of Zones
Alabama	Enterprise Zone Credit	28	Michigan	Michigan Renaissance Zone Program	39
Arizona	Enterprise Zone Program	24	Minnesota	Enterprise Zone Program	6
Arkansas ¹	Arkansas Enterprise Zone Program Incentives	1	Missouri	Enterprise Zone Credit	66
California	Enterprise Zones	39	Nebraska	Enterprise Zone Act	5
Colorado	Enterprise Zone Credits	19	New Jersey	Urban Enterprise Zone	30
Connecticut	Targeted Investment Community Benefits, Enterprise Corridor Zone Benefits	17	New Mexico	Enterprise Zones	1
Delaware	Targeted Area Tax Credits	30	New York	Economic Development Zone (EDZ) Tax Credit, Economic Development Zone Incentive Credit, EDZ Wage Tax Credit, EDZ Capital Credit, EDZ Sales/Use Tax Credit, EDZ Real Property Tax Credit	62
Florida	Florida Enterprise Zone Program	52	North Carolina	Development Zone Enhancements	60
Georgia	Job Tax Credit	1	Ohio	Enterprise Zone Program	123
Hawaii	Enterprise Zone Program	19	Oklahoma	Enterprise Zones	225
Illinois	Corporate Income Enterprise Zone Incentives, Sales Tax Enterprise Zone Incentives	91	Oregon	Enterprise Zone Program	49
Indiana	Indiana Enterprise Zone Program	29	Pennsylvania	Enterprise Zone Credit	50
Iowa	Enterprise Zone Program	46	Rhode Island	Enterprise Zones Tax Incentives	11
Kansas ¹	Enterprise Zone Incentives	1	South Carolina ¹	Economic Impact Zone Investment Tax Credit	1
Kentucky	Enterprise Zone Program	10	Tennessee	Enterprise Zone Contributions	2
Louisiana	Enterprise Zones	1,740	Texas	Enterprise Zone Program	183
Maine	Pine Tree Opportunity Zones	4	Utah	Enterprise Zones	44
Maryland	Enterprise Zone Tax Credits, Enterprise Zone "Focus Area" Tax Credits	29	Virginia	Enterprise Zone Program	57
Massachusetts	Economic Development Incentive Program	40	Washington	Community Empowerment Zone	6
			Wisconsin	Enterprise Development Zone	22

¹ Entire state is designated as an enterprise zone.

Source: Council of State Governments and OPPAGA review of state program documents.

Most states have increased their number of enterprise zones

Many states have expanded their enterprise zone programs in recent years to increase the number of designated zones and/or the size of the zones. States have, on average, designated 23 additional zones since 1995. Five states—California, Indiana, New York, Texas, and Wisconsin—not only increased the number of zones, but also amended their laws to increase in the geographical size of their enterprise zones. For example, California cities and counties were authorized to expand the size of their zones by at least 15%. Indiana increased the maximum size of its enterprise zones from three

to four square miles. Texas authorized local governments to modify enterprise zone boundaries once per year without state approval.

In Florida, the 2002 Legislature authorized some local governments to apply to OTTED to amend enterprise zone boundaries to replace areas not suitable for development.⁵ In addition, some local governments have been authorized to apply to OTTED to amend the boundaries of rural zones to increase an area's size to a maximum of 20 square miles.⁶

⁵ Chapter 2002-224, *Laws of Florida*.

⁶ Chapter 2003-19, *Laws of Florida*.

What criteria do other states use for designating enterprise zone areas?

Most states require enterprise zones to have high poverty and unemployment levels

Most states require an area to meet certain criteria, such as having high levels of poverty, unemployment, and population losses, in order to be designated as an enterprise zone. Typically, an area must have poverty and unemployment rates that exceed a state's average rates and population losses must be sustained over a period of time.

In addition, some states, including Maryland, New York, and Virginia, require areas to be physically blighted as a condition for being designated as a zone. For example, New York requires designated areas to have high amounts of abandoned or demolished property or be experiencing high rates of delinquent property tax payments. The three states that have designated their entire states as enterprise zones do not limit incentives to specific distressed areas. However, in Arkansas and South Carolina, businesses located in less prosperous counties can receive greater incentives than businesses located in more prosperous areas.

In Florida, designated areas must have a poverty rate of at least 20%, have an unemployment rate that is higher than the state's unemployment rate, and be distressed as evidenced by the presence of high crime, abandoned structures, deteriorated infrastructure, or substantial population decline.

What requirements must businesses in other states meet in order to qualify for incentives?

Many states require companies to meet performance standards to qualify for enterprise zone incentives

Many states require companies to meet performance standards in order to qualify for enterprise zone incentives. The performance standards used by states include requiring companies to take the actions described below.

- **Relocate to an enterprise zone or, if already located in a zone, increase the size of its workforce.** For example, Hawaii requires businesses already located in its enterprise zones to increase their average number of full-time employees by at least 10% annually. Hawaii also requires businesses that start up or move into an enterprise zone to increase their average annual number of full-time employees by at least 10% by the end of its first year of zone program eligibility.
- **Create a specified number of jobs.** For example, Kansas requires manufacturing firms to create two or more net new jobs. It requires other non-retail companies to create five or more net new jobs.
- **Make a significant capital investment within an enterprise zone.** For example, South Carolina requires businesses to invest at least \$50,000 in order to receive an abatement against the portion of county property taxes that is not allocated to local public schools.
- **Increase its payroll by a specified amount.** For example, Arkansas requires businesses in less prosperous counties to increase their payrolls by \$100,000 over a 24-month period in order to qualify for enterprise zone incentives.⁷ However, Arkansas does not require the businesses to create a specific number of jobs.

⁷ Companies in prosperous counties are required to increase their payrolls by \$200,000.

- **Pay a specified wage to its employees.** For example, Maryland requires businesses to pay employees hired for newly create full-time jobs a wage equal to at least 150% of the federal minimum wage.
- **Hire enterprise zone residents or disadvantaged workers.** For example, Louisiana requires companies in enterprise zones that receive certain tax credits to hire at least 35% of their new employees from targeted groups such as public assistance recipients or persons who are physically challenged or lack basic learning skills.

Florida requires businesses to increase the total number of full-time jobs by more than the average of the previous 12 months in order to receive a jobs credit against sales tax or corporate income taxes. Further, to receive the Enterprise Zone Property Tax Credit incentive, Florida requires that businesses create at least five new jobs.

What types of incentives are offered to businesses locating or expanding in enterprise zones in other states?

Most states offer similar types of incentives to businesses locating or expanding in their enterprise zones

Most states offer all or some of the following types of incentives to businesses in their enterprise zones: income tax and job creation tax credits, sales and use tax exemptions, and credits for hiring employees from targeted groups. Most states also offer businesses some type of regulatory relief in the form of expedited permit processing or reductions in permitting fees. Exhibit 4 shows the types of incentives offered by states with enterprise zone or similar programs.

Exhibit 4 Most States With Enterprise Zone Programs Offer Various Tax Incentives ¹

Type of Incentive	Percentage of States Using Incentive
Employer income tax credit ²	67%
Job Creation/wage credit ²	61%
Sales and use tax credits ²	58%
Regulatory relief (i.e., reducing permit fees) ²	55%
Credit for selective hiring (i.e., credit for hiring disadvantaged workers) ²	54%
Property Tax Reduction ²	46%
Direct state loans	37%
Investment credit for real estate improvements	31%
Tax increment financing	29%
Infrastructure/public service improvements	29%
Credit for Interest Paid on Loans	17%
Industrial revenue bond/Industrial development bond allocation preference	17%
Venture capital funds	17%
Employee Income tax credit	11%

¹ While 39 states have enterprise zone programs, we were only able to obtain incentive data for 33 programs.

² These types of incentives are offered by Florida's Enterprise Zone Program.

Source: *State of Hawaii Enterprise Zones Partnership Annual Report to the Governor, 2001-2002*, and OPPAGA review of program documents.

What alternative types of geographically targeted incentive programs are being implemented by other states?

In recent years, Michigan, Minnesota, and Pennsylvania have established tax-free zone programs. ⁸ These programs differ from typical enterprise zone programs in that they substantially reduce taxes for existing business and residents of targeted distressed areas rather than provide incentives to businesses relocating or expanding operations in the areas.

⁸ Minnesota and Pennsylvania also have enterprise zone programs as well as tax free zone programs.

For example, Michigan’s Renaissance Zone Program waives almost all state and local taxes paid by businesses located in a zone over a 10- to 15-year period. These tax benefits will be phased out in 25% increments over the last three years of an area’s designation period. This program also provides tax exemptions to zone residents. Exhibit 5 provides an overview of Michigan’s Renaissance Zone program.

**Exhibit 5
Michigan’s Renaissance Zone Program Eliminates Most State and Local Taxes for Businesses and Persons Living in the Zones**

Michigan Renaissance Zone Program	
Area Eligibility Criteria	<ul style="list-style-type: none"> ▪ Poverty rate must be greater than the state average ▪ Unemployment rate must be higher than the state average for three of the five preceding years ▪ Increase in equalized valued of property is less than the statewide average increase since 1972 for both property and housing ▪ Negative population change from 1970 to recent census.
Eligible Participants	<ul style="list-style-type: none"> ▪ Residents and businesses located in or moving into designated zones
State and Local Tax Exemptions	<ul style="list-style-type: none"> ▪ Single Business Tax ▪ State Personal Income Tax ▪ Six-mill State Education Tax ▪ Local Personal Property Tax ▪ Local Real Property Tax ▪ Local Income Tax ▪ Utility Users Tax

Source: OPPAGA review of reports from other states.

What factors should be considered in evaluating Florida’s enterprise zone program?

Statutory provisions authorizing Florida’s Enterprise Program will be repealed December 31, 2005, unless they are re-enacted by the Legislature. Consequently, the Legislature will need to review the program during the 2005 session and determine whether it should be continued.

Based on prior OPPAGA reports and our review of other states’ enterprise zone programs, we recommend that the Legislature consider several issues in making decisions regarding the program’s future.

- To what extent are various state and local incentives being used in enterprise zones?
- Is there variation among Florida’s enterprise zones in their use of state and local incentives and if so, what are the reasons for this variation?
- What types of businesses are using the incentives (size of companies receiving incentives)?
- What are the outcomes of enterprise zones in terms of their contribution to job creation and redevelopment relative to their costs in terms of foregone tax revenues to the state and local governments?
- What has been the effect of recent actions to expand the boundaries of existing enterprise zones?

The Legislature could direct OPPAGA to review Florida’s Enterprise Zone Program and report on its findings prior to the 2005 Regular Session. Information provided by this review could help the Legislature in determining whether to continue the program. This review could focus on the Enterprise Zone Program itself or be conducted as part of a broader project to review the multiple state programs targeted to revitalizing the same distressed areas of the state.

The Florida Legislature

Office of Program Policy Analysis and Government Accountability



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