



## The Legislature Has Several Options Available for Enhancing Rural Enterprise Zones

### *at a glance*

The use of state incentives in rural enterprise zones has substantially increased during the past decade. However, the use of incentives awarded varies widely among these enterprise zones. The Legislature may wish to consider several options that could encourage more businesses to take advantage of incentives in rural zones.

- Reduce the minimum dollar threshold for the sales tax refund on business machinery and equipment from \$5,000 to a lower amount, such as \$500.
- Provide rural enterprise zones with financial assistance for administration and marketing.
- Allow companies in rural enterprise zones to transfer tax credits to other companies.
- Replace tax credit incentives with tax refunds.

Each option has benefits and drawbacks that the Legislature should carefully weigh.

### Scope

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Chapter [2005-244](#), *Laws of Florida*, directed the Office of Program Policy Analysis and Government Accountability (OPPAGA) to review the use of state incentives in Florida's rural enterprise zones. This report addresses six questions.

- To what extent are state incentives being used in rural enterprise zones?
- How many new businesses and jobs have been created in rural enterprise zones?
- Are current state incentives appropriate for rural enterprise zones?
- What obstacles are faced by rural enterprise zones?
- Would allowing the transfer of tax credits enhance the effectiveness of rural enterprise zones?
- What other options should the Legislature consider for enhancing rural enterprise zones?

### Background

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Enterprise Zone Program. Florida's Enterprise Zone Program was created 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.<sup>1</sup>

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<sup>1</sup> Sections [290.001-290.016](#), *F.S.*, authorize the creation of enterprise zones in Florida and specify goals and criteria for the program. Chapter [2005-287](#), *Laws of Florida*, redesignated existing enterprise zones and extended the program until December 31, 2015.

Under Florida’s Enterprise Zone Program, urban and rural areas of the state meeting various criteria, such as suffering from high levels of poverty, unemployment, and physical deterioration, may be designated as enterprise zones.

Rural enterprise zones. An area may be designated as a rural enterprise zone if

- the nominating county has a population of 75,000 or less;
- the nominating county has a population of 100,000 or less and is contiguous to a county with a population of 75,000 or less;
- the nominating municipality is located in a county with a population of 75,000 or less; or
- the nominating municipality is located in a county with a population of 100,000 or less and is contiguous to a county with a population of 75,000 or less.<sup>2</sup>

<sup>2</sup> Section 290.004(6), F.S.

A rural enterprise zone cannot exceed 20 square miles.<sup>3</sup>

There are currently 27 rural enterprise zones in Florida (see Exhibit 1).

Enterprise Zone incentives. To encourage investment in enterprise zones, the state provides incentives in the form of tax credits, refunds, or tax exemptions to businesses that are located or investing in these areas. Exhibit 2 lists the various incentives available in all urban and rural zones. These incentives apply to sales and corporate income taxes that otherwise would be due from the businesses.

<sup>3</sup> Section 290.0065(5), F.S., provides that federally designated empowerment zones and enterprise communities shall be designated as state enterprise zones without regard to their size.

### Exhibit 1 Florida Currently Has 27 Rural Enterprise Zones



Source: Enterprise Florida, Inc.

## Exhibit 2

### Florida's Enterprise Zone Program Provides Various 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 or a rural county.

**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 or a rural county.

**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.

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

The Office of Tourism, Trade, and Economic Development (OTTED) in the Executive Office of the Governor administers the Enterprise Zone Program. OTTED is responsible for approving rural enterprise zone designation applications in consultation with Enterprise Florida, Inc. OTTED also provides technical support to local zone coordinators on how to manage and promote the program, and assists businesses in using program benefits. It also submits an annual report on the program to the Governor and Legislature.

The Florida Department of Revenue approves applications for program incentives. In addition, Enterprise Florida, Inc., is responsible for marketing Florida's Enterprise Zone Program.<sup>4</sup>

Local governments are required to establish enterprise zone development agencies. Rural zone coordinators provide assistance to businesses applying for state tax credits and local incentives, educate the public about the

program, and submit data on zone activities to OTTED for inclusion in its annual report to the Governor and Legislature. The state does not provide funding to local enterprise zones for administrative or other program-related costs.

## Questions and Answers —

### *Question 1: To what extent are state incentives being used in rural enterprise zones?*

The use of state financial incentives in rural enterprise zones has increased substantially over the past decade. As shown in Exhibit 3, the dollar amount of state program incentives awarded to businesses in rural zones increased from \$10,747 in Fiscal Year 1995-96 to \$1,243,135 in Fiscal Year 2003-04. Further, the percentage of total program incentives awarded to businesses in rural zones increased from 1% to 22% over this period.

<sup>4</sup> Enterprise Florida, Inc., maintains a website on the Enterprise Zone Program: [www.floridaenterprisezone.com](http://www.floridaenterprisezone.com).

**Exhibit 3  
The Percentage of State Incentives Awarded to Rural Enterprise Zones Has Increased Over the Last Nine Fiscal Years <sup>1,2</sup>**

Fiscal Year	Urban	Rural	Total	Rural %
1995-96	\$ 817,740	\$ 10,747	\$ 828,487	1%
1996-97	1,345,940	50,667	1,396,607	4%
1997-98	2,323,539	115,240	2,438,779	5%
1998-99	2,950,614	248,288	3,198,902	8%
1999-00	3,308,610	226,552	3,535,162	6%
2000-01	3,474,183	266,756	3,740,939	7%
2001-02	3,950,422	519,667	4,470,089	12%
2002-03	3,388,248	937,053	4,325,301	22%
2003-04	4,338,117	1,243,135	5,581,252	22%
<b>Total</b>	<b>\$25,897,413</b>	<b>\$3,618,105</b>	<b>\$29,515,518</b>	<b>12%</b>

<sup>1</sup> Enterprise zone data is for the federal fiscal year from October 1 through September 30. Data for Fiscal Year 2004-05 was not available as of the completion of our fieldwork.

<sup>2</sup> The exhibit does not include incentives awarded for jobs tax credits (corporate), property tax credits (corporate), and miscellaneous credits that were not identified for individual enterprise zones.

Source: Governor’s Office of Tourism, Trade, and Economic Development.

This increase was due to several factors.

- Ten new rural zones were created in Fiscal Year 2001-02.
- The Legislature amended the law in 2001 to expand the size of rural zones from as few as 3 to 20 square miles, which made more businesses eligible for program incentives. The Legislature also amended the law that year to increase the tax credits companies in rural zones could receive on wages paid to new employees.
- Program activity increased substantially in some rural zones. For example, the incentives awarded in Gulf County rose from \$20,435 in Fiscal Year 2000-01 to \$496,601 in Fiscal Year 2003-04. In the most recent fiscal year, Gulf County accounted for 40% of all incentives awarded to rural zones statewide. Enterprise Florida, Inc., managers attribute this increase in Gulf County to substantial growth in residential development, a resurgence of downtown business activity in one of the county’s municipalities, and aggressive marketing of the Enterprise Zone Program to small businesses.

As shown in Exhibit 4, the Jobs Tax Credit (Sales and Use) and Sales Tax Refund for Business Machinery and Equipment accounted for the majority of incentives awarded in rural enterprise zones. <sup>5</sup>

**Exhibit 4  
Jobs Tax Credit and Business Equipment Refunds Were the Most Frequently Used Program Incentives in Rural Zones Over Past Nine Years**

Incentive	Amount	% of Total
Jobs Tax Credit (Sales and Use)	\$1,700,525	47%
Business Equipment Refund	1,117,473	31%
Building Materials Refund	798,115	22%
Electrical Energy Exemption	1,992	<1%
<b>Total</b>	<b>\$3,618,105</b>	<b>100%</b>

Source: Governor’s Office of Tourism, Trade, and Economic Development.

The use of incentives awarded varies widely among rural enterprise zones. In Fiscal Year 2003-04, state incentives approved for individual rural zones ranged from \$0 to \$496,601. Three of the 26 rural zones accounted for 56% (\$695,729) of the \$1,243,135 in total state incentives awarded to rural zones in Fiscal Year 2003-04. <sup>6</sup>

**Question 2: How many new businesses and jobs have been created in rural enterprise zones?**

The number of new businesses and jobs created in an enterprise zone is often used as measures of a zone’s performance. As shown in Exhibit 5, the number of businesses and jobs created in rural enterprise zones has increased significantly since Fiscal Year 1995-96, with the biggest increases in the most recent years. A major factor contributing to this trend appears to be the increase in the number of rural enterprise zones (from 16 to 26) in Fiscal Year 2001-02. <sup>7</sup> The large increase in businesses and jobs in Fiscal Year 2003-04 was primarily due to

<sup>5</sup> The Department of Revenue does not report data for the Jobs Tax Credit (Corporate Income Tax) for individual enterprise zones. Consequently, Exhibit 4 does not include data on the use of this incentive.

<sup>6</sup> These three zones were DeFuniak Springs, Gulf County, and Hendry County.

<sup>7</sup> These new zones accounted for almost half (47%) of new businesses and new jobs (49%) created in rural zones in Fiscal Year 2001-02.



businesses opening facilities in rural enterprise zones in Madison, Putnam, and Taylor counties.

However, as noted in our recent report on state economic development incentive programs, the impact of the program’s incentives cannot be isolated from those of other federal, state, and local economic development programs that may be operating in the same distressed areas of the state.<sup>8</sup> Generally, local officials include enterprise zone incentives as part of an overall package of incentives that are offered to businesses seeking to locate or expand in an area.

**Exhibit 5  
The Number of New Businesses and Reported Jobs Created Substantially Increased Over the Last Three Years**

Fiscal Year	Number of Zones	Number of New Businesses	Number of Jobs
1995-96	4	14	37
1996-97	14	17	249
1997-98	14	19	312
1998-99	14	16	288
1999-00	16	8	235
2000-01	16	8	131
2001-02	26	109	804
2002-03	26	84	630
2003-04	26	323	1,881

Source: Governor’s Office of Tourism, Trade, and Economic Development.

**Question 3: Are the current state incentives appropriate for rural enterprise zones?**

A majority (88%) of the 24 rural enterprise zone coordinators responding to an OPPAGA survey reported that program incentives were generally appropriate for businesses in their communities.<sup>9</sup> Coordinators identified the Jobs Tax Credit (Sales and Use), the Sales Tax Refund for Business Machinery and Equipment, and the Sales Tax Refund for Building Materials as the most effective incentives.

<sup>8</sup> *Locals Find State Urban Revitalization Programs Useful; More Centralized Program Information Would Be Helpful*, OPPAGA Report No. [05-32](#), May 2005.

<sup>9</sup> We surveyed all 27 rural enterprise zone coordinators. Twenty-four, or 89%, responded. Two of the 24 coordinators reported that the incentives were only sometimes appropriate, while one did not answer this question.

However, several coordinators recommended changes in the program that could make rural enterprise zones more attractive to businesses. For example, 10 of the 24 coordinators commented that reducing the dollar threshold for the sales tax refund on business machinery and equipment from its current level of \$5,000 to a lower amount, such as \$500, would make this incentive more useful for rural zones. They asserted that many small businesses in rural enterprise zones cannot take advantage of the incentive because they typically spend less than \$5,000 on business equipment.

Based on Fiscal Year 2003-04 data on the use of this incentive, reducing the threshold to \$500 for rural zones would result in eligible businesses qualifying for approximately \$150,000 in sales tax refunds on business machinery and equipment.

Other coordinators suggested that the state provide financial support for marketing and administering the zones. We address this issue in Question 4.

**Question 4: What obstacles are faced by rural enterprise zones?**

As noted in a prior OPPAGA report, one of the major obstacles faced by rural enterprise zones is a lack of resources for marketing zones to businesses.<sup>10</sup> Local zone coordinators frequently perform enterprise zone-related activities on a part-time basis, making it difficult for them to market the program and educate businesses about program benefits and processes. Several recent interim reports by legislative committees have reached similar conclusions regarding rural zone resources.<sup>11</sup>

<sup>10</sup> *Program Review: Use of Enterprise Zone Incentives Has Increased, but Challenges Continue*, OPPAGA Report No. [99-43](#), March 2000.

<sup>11</sup> *The Effectiveness of Enterprise Zone Tax Incentives: Florida’s Enterprise Zone Program Since 1994*, The Florida Senate Committee on Ways and Means, Subcommittee E, Interim Project Summary [98-63](#), October 1998; *Review and Evaluation of the Enterprise Zone Program*, The Florida Senate Committee on Commerce and Economic Opportunities, Interim Project Report [2001-029](#), November 2000; *A Review and Evaluation of the Florida Enterprise Zone Program and Incentives*, The Florida Senate Committee on Commerce and Consumer Services, Interim Project Report [2005-111](#), December 2004.

To address this situation, the Legislature could consider providing state financial assistance to rural enterprise zones for administration and marketing. If this were done, the state should require local governments to provide matching funds, as local support and engagement in such initiatives can be key to the zones' success. Providing grants of \$30,000 to each of the 27 rural enterprise zones to partially fund a marketing position would require \$810,000 in funding.

***Question 5: Would allowing the transfer of enterprise zone jobs tax credits enhance the effectiveness of rural enterprise zones?***

Under Florida's Enterprise Zone Program, earned jobs tax credits may be applied towards either a business's corporate income or sales tax obligation. However, some businesses may not be able to use all of their earned tax credits because the amount of the credit earned exceeds their tax liabilities.

One option that some stakeholders have suggested is to allow businesses with earned jobs tax credits to transfer unused credits to other companies.<sup>12, 13</sup> Some zone coordinators and Enterprise Florida, Inc., managers contended that allowing tax credit transfers would benefit businesses in rural zones by providing them with a source of capital for paying new employee salaries and for acquiring equipment needed to expand their operations. This, in turn, could help create more jobs in rural zones.

Tax credit transfers could potentially assist two types of businesses. The first would be those whose corporate income tax liabilities were lower than the amount of tax credits they were eligible to receive as a result of creating new jobs in a zone. The second would be sole proprietorships and S-type corporations that

are eligible to receive jobs tax credits, but are unable to use them since they do not pay corporate income tax or collect sales and use taxes in Florida.

Some programs in Florida and other states allow businesses to transfer their unused tax credits. Under Florida's Brownfields Redevelopment Program, voluntary clean-up tax credits may be transferred to another entity in whole or in units of no less than 25%. Under Missouri's Enhanced Enterprise Zone Program, tax credits may be refunded, transferred, sold, or assigned. The sale price of a tax credit cannot be less than 75% of the credits' par value.

If the Legislature wished to pursue this option, it should consider several issues.

- The state would need to create a process for businesses to transfer unused tax credits. Such a process would include multiple steps, including: (1) a business would apply for and be granted a jobs tax credit certificate by a state entity; (2) the business would sell the certificate of unused tax credits to another company; (3) the business would return the certificate to the entity for transfer of the unused credits to the second company; and (4) the entity would send the certificate(s) to the company planning to use the unused portion of the original credit.
- Allowing the transfer of unused jobs tax credits would increase the dollar amount of credits used by businesses in rural zones and thereby reduce state tax revenues. The Department of Revenue estimates that allowing businesses in all of Florida's enterprise zones to transfer jobs tax credits would cost the state an additional \$550,000 in foregone tax revenues annually.<sup>14</sup>

<sup>12</sup> Tax credit transfers would allow a company to sell the earned tax credits that it has been awarded but cannot or does not use. Tax credits are generally sold at a discount on the face value of the credit. For example, a taxpayer with a \$100,000 tax liability may purchase \$100,000 in credits for \$80,000 if the credit is sold at 80% of the face value. Thus, the buyer would save \$20,000.

<sup>13</sup> Businesses located in a rural zone are eligible for a corporate income tax credit for 30% or 45% of the wages paid to new employees who reside within a rural county.

<sup>14</sup> The department's estimate is based on a 15% increase in Jobs Tax Credit awards. The fiscal impact of implementing this approach in rural zones could not be determined because the department does not track jobs tax credits taken against corporate income tax for individual zones. However, the fiscal impact of implementing tax credits for rural zones would be less than that for urban zones since higher dollar amounts of incentives are typically awarded to businesses located in urban zones.

- According to Department of Revenue managers, a mechanism would need to be established to notify the department that the credit has been transferred from one company to another. They noted that there should be sufficient time following notification for the department to apply the transfer to the appropriate company prior to the tax filing deadline.<sup>15</sup>

***Question 6: What other options could the Legislature consider for rural enterprise zones?***

Another option the Legislature may wish to consider for rural enterprise zones is replacing the current incentives with tax refunds similar to those provided by the Qualified Target Industry (QTI) Tax Refund Program. Under the QTI Program, businesses may receive refunds against one or more of their sales and use, documentary stamp, emergency excise, ad valorem, corporate income, insurance premium, and intangible personal property taxes. Businesses receive the refunds only after meeting job creation and wage objectives specified in written agreements with OTTED.

The Legislature annually appropriates funding for the QTI Program, and participating local governments each provide a 20% match.<sup>16</sup> After OTTED receives the local match and determines that a business has met its job creation and wage requirements, it sends a payment to the business. The Department of Revenue plays no role in approving applications as it does with tax credits.

Providing business with enterprise zone tax refunds rather than tax credits would have several advantages.

- This option would provide businesses with the flexibility to apply their refunds against either a single tax or a combination of state and local taxes including local ad valorem taxes. Tax credits are typically restricted in application to only a single type of tax.
- It would provide the Legislature with more control over the program by annually appropriating funding for refunds. The Legislature currently has no control over the amount of tax credits claimed by businesses in enterprise zones. The Legislature could exercise additional financial control by imposing a statutory cap on the amount of refunds OTTED can award each year. The current cap for the QTI Program and the Qualified Defense Industry Tax Refund Program is \$35 million.

If the Legislature decided to pursue this option, it would need to consider several issues. For example, it would have to decide which taxes could be claimed for refunds. If local ad valorem taxes were included, the Legislature also would have to decide whether to require local governments with enterprise zones to provide matching funds for the incentives. Under the QTI Program, local governments are required to provide a match of 20% of the total refund unless this requirement is waived by OTTED. In addition, the Legislature would need to determine the conditions under which a company would receive a refund. This could be in the form of a written agreement with OTTED similar to the agreements under the QTI Program. The agreement could obligate a company to create a specified number of jobs or spend a minimum amount of money on business equipment and/or building materials. Also, OTTED would have to verify that a business has met its obligations before providing it with a refund payment.

<sup>15</sup> Corporate income tax returns are filed annually while sales tax returns are filed monthly.

<sup>16</sup> The 20% local match may be waived for a project in a Brownfield or a rural county. However, an applicant exercising this option cannot receive more than 80% of the total eligible refunds. A reduced local match results in proportional reductions in both the state and local governments' share of the refund.

## Agency Response ———

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was provided to the executive director of the Department of Revenue, the president and CEO of Enterprise Florida, and the director of the Office of Tourism, Trade, and Economic Development for review. Written responses to the draft report are included in Appendix A.



# Appendix A

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November 10, 2005

Mr. Gary R. VanLandingham, Director  
The Florida Legislature's Office of Program  
Policy Analysis and Government Accountability (OPPAGA)  
111 West Madison Street, Suite 312  
Tallahassee, Florida 32399-1475

Dear Mr. VanLandingham:

Thank you for the opportunity to review the OPPAGA report on Rural Enterprise Zones in advance of its public release. The report contains information that can be used to bring further value to the tools used in rural Florida for job creation and economic diversity.

We especially appreciate and value the findings of OPPAGA that encourage more businesses to take advantage of incentives in rural zones. Specifically, we have been working for several legislative sessions on these two options: 1) Reduce the minimum dollar threshold for sales tax refund on business machinery and equipment from \$5,000 to \$500 and 2) Allow companies in rural enterprise zones to transfer tax credits to other companies. We feel these actions are affirmed by OPPAGA's options and will continue to work with OPPAGA, legislative staff and OTTED on these modifications.

OPPAGA's option to "provide rural enterprise zones with financial assistance for administration and marketing" is certainly a need in these fiscally distressed counties. Because of the potential to have financial match requirement, EFI does have some concerns on converting the existing tax credit programs into a tax refund program operating similar to QTI. We look forward to working with OTTED, OPPAGA and Legislative Staff on each option contained within this report.

Enterprise Florida commends OPPAGA for developing options that can enhance our State's economic development effort. Again, we appreciate the opportunity to review and comment on the Report.

Sincerely,

/s/  
Darrell Kelley  
President & CEO

Enterprise Florida  
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November 18, 2005

Mr. Gary R. VanLandingham  
Director  
Office of Program Policy Analysis  
and Government Accountability  
111 West Madison Street; Suite 312  
Tallahassee, Florida 32399-1475

Dear Mr. VanLandingham:

Thank you for providing the Governor's Office of Tourism, Trade, and Economic Development (OTTED) the opportunity to review the preliminary findings of OPPAGA's report "The Legislature Has Several Options for Enhancing Rural Enterprise Zones" (pursuant to Chapter 2005-244, Laws of Florida).

We appreciate the preliminary findings and proposals of the report and look forward to working with the Legislature as the proposals are discussed during the legislative process. We are continually searching for ways to make all of our programs more efficient and effective; however, we have the following concern regarding the final proposal:

### Enterprise Zone Tax Refund Proposal

OTTED does not believe that replacing the existing set of Enterprise Zone incentives with a tax refund will be cost efficient, due to the volume of tax incentives that are annually approved. This high volume is caused by the smaller scale of the incentives awarded to individual businesses located within an Enterprise Zone, as compared to the Qualified Targeted Industry, Program (example used in the proposal). According to DOR's annual report, there were over 1,300 Enterprise Zone applications approved during the 2003/2004 fiscal year. OTTED does not currently have the personnel to handle the expected administrative responsibilities associated with providing tax refunds in the place of Enterprise Zone incentives, and believes that the additional cost to gain the necessary resources are not in the State's best interests.

Once again, thank you for allowing OTTED an opportunity to provide input on your draft report. If you have any questions, please contact Burt Von Hoff, Enterprise Zone Program Administrator, at 487-2568.

Sincerely,

/s/

Dr. Pamella J. Dana

Director

Office of Tourism, Trade, and Economic Development

*The Florida Legislature*  
*Office of Program Policy Analysis*  
*and Government Accountability*



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- [Florida Government Accountability Report \(FGAR\)](#) is an Internet encyclopedia of Florida state government. FGAR offers concise information about state programs, policy issues, and performance.
- [Best Financial Management Practices Reviews of Florida school districts](#). In accordance with the *Sharpening the Pencil Act*, OPPAGA and the Auditor General jointly conduct reviews to determine if a school district is using best financial management practices to help school districts meet the challenge of educating their students in a cost-efficient manner.

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