



Few Businesses Take Advantage of Enterprise Zone Benefits; the Legislature Could Consider Several Options to Modify the Program

at a glance

Over the past five years, Florida's Enterprise Zone Program awarded \$187 million in incentives, most of which went to businesses in Miami-Dade County. Program participation remains relatively low in most enterprise zones, limiting progress toward achieving the legislative goals of revitalizing distressed areas and increasing employment of area residents.

The Legislature could consider several options for modifying the program, including

- encouraging greater participation by lowering incentive eligibility thresholds;
- focusing on job creation by eliminating all incentives except jobs tax credits;
- establishing a one-year program moratorium on awarding incentives to save an estimated \$18 million in Fiscal Year 2011-12;
- abolishing the program to save an estimated \$18 million annually; or
- allowing the program to sunset on December 31, 2015.

Scope

As required by Ch. 2010-147, *Laws of Florida*, OPPAGA reviewed the Florida Enterprise Zone Program and answered five questions.

1. How has the program changed over time?
2. What are the costs of incentives and program administration?
3. Are the application, review, and approval processes transparent, effective, and efficient?

4. Is the program effectively meeting legislative goals?
5. What options could the Legislature consider to modify the program?

Background

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

To achieve these goals, the state, county, and municipal governments provide investments, tax incentives, and local government regulatory relief to encourage businesses to invest and locate in designated zones and residents to improve their property. These incentives include job and property tax credits as well as sales tax refunds (see Exhibit 1).

¹ 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*, re-designated existing enterprise zones and extended the program until December 31, 2015.

**Exhibit 1
Florida's Enterprise Zone Program Provides a Variety of Incentives**

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 sales tax credit for wages paid to new employees who have been employed for at least three months and are zone residents.

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 zone residents.

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 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, insurance premium tax, or a sales tax refund for donations made to approved community development projects. This incentive is available only in Front Porch Florida communities or enterprise zones unless the projects include low and very low income housing.

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.

The Legislature requires enterprise zones to meet several criteria. An enterprise zone cannot exceed 20 square miles and must have a poverty rate greater than 20%, high unemployment, and include deteriorating structures.² Rural enterprise zones are located in counties with populations

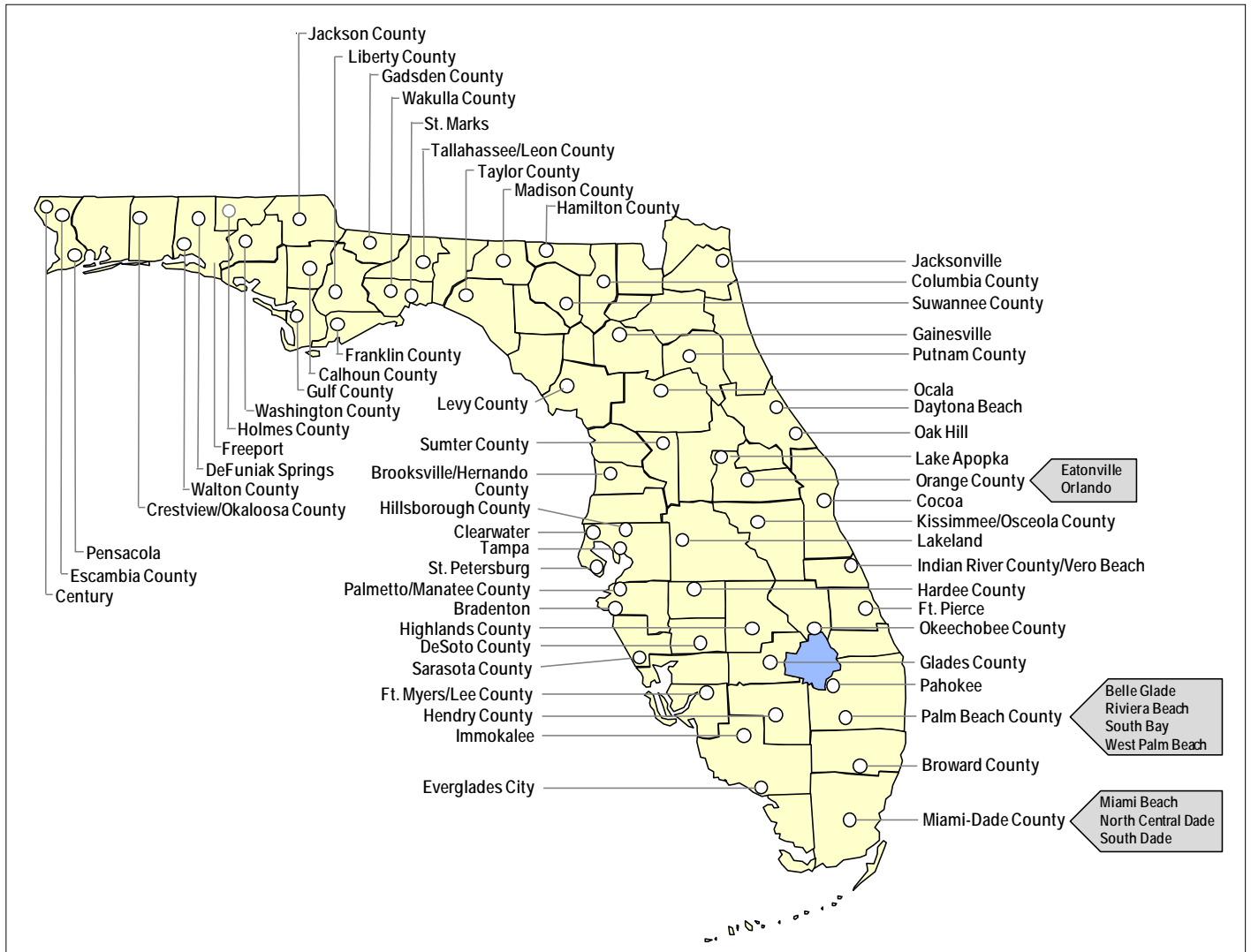
that generally do not exceed 100,000.³ When the Legislature authorizes a new zone, counties and municipalities may nominate an area that meets the criteria to be designated as a zone. The state currently has 59 enterprise zones—29 urban and 30 rural, as shown in Exhibit 2.⁴

² The Legislature authorized federally designated empowerment zones and enterprise communities as state enterprise zones without regard to size.

³ Zones may be designated rural if the nominating county has a population of 75,000 or less; a county has a population of 100,000 or less and is contiguous to a county with a population of 75,000 or less; a municipality is located in a county with a population of 75,000 or less; or a 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.

⁴ Two additional enterprise zones in Columbia and Suwannee counties, which were created in 2010 following the passage of Ch. 2010-108, *Laws of Florida*, effective July 1, 2010, were not included in our analysis.

Exhibit 2 Florida Currently Has 59 Enterprise Zones



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

Local governments may apply to the Governor’s Office of Tourism, Trade, and Economic Development (OTTED) for an enterprise zone boundary change once every three years by adopting a resolution that describes the reasons for and extent of the proposed change.

Multiple state and local entities play a role in administering the enterprise zone program. At the state level, three agencies are involved in the enterprise zone program.

- The Governor’s Office of Tourism, Trade, and Economic Development oversees the program and approves zone designation applications and changes in enterprise zone boundaries. The

office also provides technical support to local zone coordinators, assists businesses in using program benefits, and submits annual program reports to the Governor and the Legislature.⁵

- The Department of Revenue approves program tax incentive applications and ensures that businesses and individuals receive associated tax credits and refunds.
- The state’s economic development agency, Enterprise Florida, Inc., markets the program and maintains a website describing enterprise zone benefits and incentives.

⁵ Section 290.014, F.S.

Local governments have enterprise zone administrative and monitoring responsibilities. For example, local governments are required to establish enterprise zone development agencies and employ zone coordinators to serve as local contacts. Zone coordinators provide assistance to businesses applying for state tax credits and refunds, certify incentive applications to the Department of Revenue, educate the public about the program, and submit data on zone activities to OTTED for inclusion in its annual program report. The state does not provide funding to local governments for these activities.

The incentive application and approval process includes several steps at the state and local levels. All businesses and individuals applying for the enterprise zone program incentives must complete a Department of Revenue form, which requires information such as business name and address, enterprise zone identification number, and small business designation, if applicable. Additional requirements vary based on the incentive sought.

Businesses applying for community contribution tax credits or refunds must seek approval from OTTED, while those applying for any other type of credit or refund must seek certification from the local enterprise zone coordinator. Applicants must attach required documents to the forms, including receipts if the business is applying for sales tax refunds and employee information if applying for jobs tax credits.

After receiving certification, businesses and individuals must submit an application to the Department of Revenue, which audits each application to verify that applicants meet several criteria. For example, applicants must have owned the property when improvements were made; employees must be full-time and live in an enterprise zone; applicants requesting refunds must pay the pertinent taxes; and application deadlines must be met.

If the department denies an application, it notifies the taxpayer. Taxpayers may respond by amending their applications, filing an informal protest with the department, or filing a written formal protest with the Division of Administrative Hearings (DOAH) or a circuit court. The

department reports that since 2005, it has received 1,516 informal protests related to enterprise zone incentive applications.⁶ DOAH held hearings on only three protests involving enterprise zone incentives during this period.

Many enterprise zone program applicants use consultants to assist with the incentive application process. These consultants provide expertise in determining applicants' eligibility for incentives and completing program applications. They typically work on a contingency basis, receiving a percentage of total incentives awarded to program applicants. Seventy-four percent of enterprise zone coordinators who responded to an OPPAGA survey question regarding consultants reported that most or some of the businesses that applied for incentives hired consultants.⁷ According to survey respondents, the consultants' role in the application process was generally positive.⁸

Other states' enterprise zone programs are similar to Florida's. Prior OPPAGA reports found that more than three-fourths of the states have established enterprise zone or similar programs.⁹ States' programs vary widely in the number of zones established, and three entire states have been designated as enterprise zones.¹⁰ Most states require enterprise zone areas to meet certain criteria, such as having high levels of poverty, unemployment, and population losses. 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

⁶ The number of protests received includes those made by developers filing individual refund claims for multiple condominium units.

⁷ We sent a survey to all enterprise zone coordinators regarding program incentives and effectiveness. We received responses from 40 coordinators representing 41 of the 57 enterprise zones, resulting in a response rate of 72%. One coordinator represents two enterprise zones.

⁸ Of the 32 enterprise zone coordinators who responded to this question, 27 said the role of paid consultants in the application process was mostly or somewhat positive.

⁹ *Florida's Enterprise Zone Program Is Similar to Those of Other States*, OPPAGA [Report No. 04-24](#), March 2004 and *The Legislature Has Several Options Available for Enhancing Rural Enterprise Zones*, OPPAGA [Report No. 05-54](#), November 2005.

¹⁰ These states are Arkansas, Kansas, and South Carolina.

as tax-free zones. These programs differ from typical enterprise zone programs in that they substantially reduce taxes for existing businesses and residents of distressed areas rather than targeting incentives to businesses relocating or expanding operations in a designated area.

Academic research on enterprise zone performance in Florida and other states has found mixed results, with numerous studies demonstrating that state enterprise zone programs had little to no effect. For example, a 2009 study found that enterprise zone designations had statistically significant effects on unemployment rates, poverty rates, and wages in several states but not in Florida.¹¹ Other research conducted in 2007 and 2009 determined that enterprise zones did not have statistically significant effects on increasing employment in California and Florida.^{12, 13} Recent studies of Colorado's enterprise zones yielded similar mixed results, with one finding that the zones had an effect on creating jobs but not on attracting new businesses; the other study found that the zones had no effect on wages and no effect on employment except in rural zones.^{14, 15}

These varying results are likely due to differences in research methods. For example, some researchers used census tracts to provide data on zone characteristics, while others used census blocks or ZIP codes for this purpose. Researchers also used different methods to identify areas that served as control groups for determining how the presence or absence of an enterprise zone designation affected program outcomes.

¹¹ John C. Ham, Ayse Imrohorglu, and Charles Swenson, "Government Programs Can Improve Local Labor Markets: Evidence from State Enterprise Zones, Federal Empowerment Zones, and Federal Enterprise Communities," unpublished paper, 2009.

¹² David Neumark and Jed Kolko, "Do Enterprise Zones Create Jobs?," *Public Policy Institute of California*, 2009.

¹³ Joel A. Elvery, "The Impact of Enterprise Zones on Resident Employment: An Evaluation of the Enterprise Zone Programs of California and Florida," *Economic Development Quarterly*, Vol. 23 Issue 1, February 2009, 44-59.

¹⁴ Stephen Billings, "Do Enterprise Zones Work? An Analysis at the Borders," *Public Finance Review*, Vol. 37 Issue 1, January 2009, 68-93.

¹⁵ Devon Lynch and Jeffrey S. Zax, "Incidence and Substitution in Enterprise Zone Programs: The Case of Colorado," unpublished paper, June 2010.

Questions and Answers —

How has the program changed over time?

The Legislature has modified the program several times since its inception in 1982. The Legislature significantly revised the Enterprise Zone Program in 1994 by limiting jobs credits to businesses located in zones, limiting the number of zones to 20, eliminating most existing zones, and requiring local governments to reapply to have areas designated as zones. The Legislature also set a program expiration date of June 30, 2005, and transferred program administration from the Department of Community Affairs to the Department of Commerce. When the Department of Commerce was abolished in 1996, the program was transferred to OTTED.

In 2005, the Legislature reauthorized the program but capped the number of zones as the number in existence on January 1, 2005. In that same year, the Legislature provided four areas the opportunity to apply for enterprise zone designations in addition to the 51 zones in existence at the time.¹⁶ Since 2005, additional enterprise zones have been authorized in Levy County and Ocala. The 2005 Legislature also required re-designation of existing zones, established a procedure for zone boundary changes, expanded the powers and responsibilities of enterprise zone development agencies, and extended the program until December 31, 2015.

Since 2005, seven enterprise zones have undergone boundary changes.¹⁷ Some of these changes removed publicly owned property from the zones and added privately owned property where development would generate additional revenue for local governments.

¹⁶ The four areas were Apopka/Orange County, Lakeland, Sebastian/Vero Beach/Indian River County, and Sumter County.

¹⁷ The zones are Fort Myers/Lee County, Gadsden County, Glades County, Highlands County, Miami-Dade County, Sarasota/Sarasota County, and Tallahassee/Leon County.

Most recently, the 2010 Legislature made condominium properties ineligible for sales tax refunds for building materials. Specifically, Ch. 2010-147, *Laws of Florida*, changed the definition of “real property” to exclude condominiums. In addition, the 2010 Legislature passed Ch. 2010-108, *Laws of Florida*, which directed OTTED to designate as a rural enterprise zone any rural catalyst sites approved prior to January 2010.¹⁸ OTTED subsequently granted

enterprise zone designations to rural catalyst sites in Columbia and Suwannee counties.

State incentive expenditures have increased significantly in recent years. During calendar year 2009, the Department of Revenue approved \$58.7 million in state incentives for the program (see Exhibit 3). This represents a 225% increase compared to \$18.1 million in state incentives approved in 2005. Total incentives for the five-year period were \$187 million.

¹⁸ The Rural Economic Development Catalyst Project is an economic development program intended to attract high-growth industries

to the state’s rural counties.

Exhibit 3
State Enterprise Zone Incentives Increased 225% from 2005 through 2009

Incentives	2005	2006	2007	2008	2009	Total 2005-2009	Percentage Change 2005-2009
Sales Tax Refund for Building Materials Used	\$5,261,149	\$14,394,159	\$25,643,610	\$30,715,751	\$46,410,878	\$122,425,547	782.14%
Jobs Tax Credit (Sales and Use Tax)	5,018,381	5,793,620	6,578,538	5,946,494	5,997,055	29,334,088	19.50%
Jobs Tax Credit (Corporate Income Tax)	3,237,294	4,816,175	3,152,233	3,341,483	2,392,295	16,939,480	-26.10%
Sales Tax Refund for Business Machinery and Equipment Used	2,856,760	1,866,331	1,604,967	1,012,723	1,072,975	8,413,756	-62.44%
Property Tax Credit (Corporate Income Tax)	1,621,570	1,037,206	1,627,781	1,108,496	1,823,284	7,218,337	12.44%
Sales Tax Exemption on Electricity Use	84,516	778,090	793,179	606	1,007,007	2,663,398	1,091.50%
Total	\$18,079,670	\$28,685,581	\$39,400,308	\$42,125,553	\$58,703,494	\$186,994,606	224.69%

Source: OPPAGA analysis of Department of Revenue data.

Most of this increase in incentives was associated with condominium developers’ extensive use of the sales tax refund for building materials. For example, condominium developers received \$37.2 million, or 96%, of the \$38.6 million in sales tax refunds claimed for building materials during the last six months of calendar year 2009. However, due to the Legislature’s recent decision to change the definition of “real property” to exclude condominiums, use of these incentives should decline significantly in the future.¹⁹

credits; these incentives totaled approximately \$160 million.²⁰ Applicants in 10 of the state’s 57 enterprise zones received 84% of these incentives during the five-year period, with applicants in Miami-Dade County’s enterprise zone receiving 55% of the total amount (approximately \$87.6 million).²¹ See Appendix A for a list of the 57 enterprise zones and the incentives awarded to applicants in each zone from 2005 to 2009.

From 2005 to 2009, the sales tax incentives most frequently awarded to applicants in specific enterprise zones were for building materials, business equipment and machinery, and jobs tax

²⁰ This amount does not include credits taken against Florida corporate income taxes because the Department of Revenue does not track these incentives for individual enterprise zones.

²¹ The other nine zones were Fort Lauderdale/Broward County, Gulf County, Jacksonville, Okeechobee County, Palm Beach County, Palmetto/Manatee County, St. Petersburg, Tallahassee/Leon County, and Tampa.

¹⁹ See, Ch. 2010-147, s.9, *Laws of Florida*.

What are the costs of incentives and program administration?

In 2009, the enterprise zone program’s total cost was approximately \$71.5 million (see Exhibit 4). This included state and local program incentives and the administrative costs of state (OTTED, the Department of Revenue, and Enterprise Florida, Inc.) and local entities.²² Most of the program’s costs (82%) were for state incentives.

**Exhibit 4
The Enterprise Zone Program Cost \$71.5 Million in 2009**

Incentive Costs			
	State	Local	Total
Incentive Costs	\$58,703,494	\$11,557,451	\$70,260,945
Administrative Costs			
Office of Tourism, Trade, and Economic Development	40,000	0	40,000
Enterprise Florida, Inc.	35,000	0	35,000
Department of Revenue	162,882	0	162,882
Local Governments ¹	0	1,007,625	1,007,625
Total	\$58,941,376	\$12,565,076	\$71,506,542

¹ Local government data is based on survey responses from 40 coordinators representing 41 of the 57 enterprise zones.

Source: Information provided by administering agencies and local governments.

Are the application, review, and approval processes transparent, effective, and efficient?

The program's incentive application review process and reporting procedures have several deficiencies and should be modified. Specifically, while the Department of Revenue has written procedures for sales tax refunds, it lacks such procedures for review and approval of tax credits (e.g., jobs tax credits). In addition, the department uses different procedures for refunds, credits, sales and use taxes, and corporate income taxes, which can confuse and frustrate business applicants. Further, stakeholders report that for some incentives, the department’s approval process is inconsistent and some department staff

²² Totals are approximate because figures are from different periods. The Department of Revenue approves incentives for a calendar year. The state fiscal year is July 1 through June 30, while the fiscal year for local enterprise zone development agencies is October 1 through September 30.

are unresponsive and lack program knowledge. Moreover, tax credit applications cannot be submitted online. Consequently, taxpayers are required to complete time-consuming paper applications.

There are also several deficiencies in program data reporting processes, which makes it difficult to draw valid conclusions about the overall effectiveness of the program. First, the Department of Revenue is not required to notify local enterprise zone coordinators when it approves applications for credits and refunds. Thus, local coordinators do not know which incentives have been approved and cannot report this information to OTTED. Without this information, OTTED is unable to accurately report program data and outcomes to the Legislature. For example, according to OTTED’s most recent annual enterprise zone report, between October 1, 2004 and September 30, 2009, 54,000 new jobs were created in zones.²³ However, Department of Revenue data shows that businesses received job tax credits against sales and use taxes for 8,086 employees over the five-year period from calendar year 2005 to 2009.

Second, the department does not record information on corporate income tax credits approved by zone, making it difficult to determine how these credits are distributed. Third, taxpayers completing sales and use tax returns often fail to specify on the application form that they are claiming enterprise zone jobs tax credits, resulting in the underreporting of the use of this incentive.

To address these application review and data reporting issues, we recommend that the Department of Revenue

- develop written application review, validation, and approval procedures;
- develop standard procedures for processing enterprise zone credits and refunds;

²³ Job creation data in the annual enterprise zone report is derived from multiple sources. Specifically, the information is self-reported by enterprise zone coordinators who gather it from sources such as county occupational license data, tax credit statistics, and local businesses’ press releases.

- develop an online application process for all enterprise zone incentives;²⁴
- be granted the authority to notify enterprise zone coordinators when it approves applications for incentives within their zones;²⁵
- record zone information related to the corporate income tax jobs tax credits in a database; and
- modify the sales and use tax credit application form to require taxpayers to report total credits from a list that includes the jobs tax credit and reject incomplete forms.

Is the program effectively meeting legislative goals?

Low participation hinders the program's progress toward meeting major legislative goals. Limited business involvement in the enterprise zone program makes it difficult for the program to accomplish its intended goals of revitalizing and rehabilitating distressed areas, encouraging businesses to locate and expand in these areas, and increasing employment among area residents.

To assess the program's progress toward achieving its intended goals, we examined economic outcomes for five zones that received 64% of the total incentives from 2005 to 2009.²⁶ These urban and rural zones include Gulf County, Jacksonville, Miami-Dade County, Okeechobee County, and Tallahassee/Leon County.²⁷

As shown in Exhibit 5, during the five-year period business, employment, and wage growth varied widely among the five zones. For example, business growth in Jacksonville increased by 8% while it decreased by 19% in Gulf County. Employment dropped in all zones except Tallahassee/Leon County where it grew by less than 1%. Wages increased in all zones, with growth ranging from 9% (Tallahassee/Leon County) to 22% (Jacksonville).

**Exhibit 5
Economic Outcomes Varied in Five Enterprise Zones from 2005 to 2009**

Enterprise Zone	Business Growth ¹	Employment Growth ²	Wage Growth ³
Gulf County	-19.2%	-19.8%	9.4%
Jacksonville	8.0%	-3.4%	22.0%
Miami-Dade County	0.02%	-2.4%	15.6%
Okeechobee County	-2.2%	-9.2%	10.9%
Tallahassee/Leon County	3.0%	0.1%	9.0%

¹ Changes in number of businesses.

² Changes in number of employees.

³ Changes in average wages.

Source: OPPAGA analysis of Agency for Workforce Innovation data.

However, low participation makes it difficult to attribute changes in business, employment, and wage growth to the effects of the program. For example, only 300 (1.6%) of the 18,692 businesses in the Miami-Dade County zone received program incentives from 2005 to 2009. The percentage of businesses participating in the program was higher in other zones but still did not exceed 15% (see Exhibit 6).

²⁴ The department would incur some costs in developing and implementing an online application process.

²⁵ To facilitate this recommendation, the Legislature may have to amend s. 213.053, *F.S.*, regarding the sharing of confidential information.

²⁶ Our analyses were limited by several factors. For example, confidentiality requirements between the Agency for Workforce Innovation and the Department of Revenue prevented us from gathering information about size, average wage, industry type, age, and other information about businesses that received incentives. In addition, because the department does not track corporate income tax credits received by taxpayers in specific zones, we were unable to determine which zones received these credits. Lastly, enterprise zone GIS maps used in our analysis had some inaccuracies regarding zone boundaries and may have incorrectly included or excluded businesses.

²⁷ Two of the zones, Miami-Dade County and Tallahassee/Leon County, changed boundaries in 2008. The Miami-Dade County

boundary change brought several large condominium and mixed use developments into the zone while the Tallahassee/Leon County boundary change brought in a business park and the municipal airport. In both cases, the boundary changes removed public lands and institutions and areas with minimal demand for enterprise zone incentives.

Exhibit 6
Small Percentages of Businesses in Selected Enterprise Zones Received Incentives between 2005 and 2009¹

Enterprise Zone	Number of Businesses in the Zone	Number of Businesses Receiving Incentives	Percentage Receiving Incentives
Miami-Dade County	18,692	300	(1.6%)
Jacksonville	3,461	102	(3.0%)
Tallahassee/Leon County	2,519	75	(3.0%)
Gulf County	353	52	(14.7%)
Okeechobee County	761	46	(6.0%)

¹ The figures do not include businesses taking credits against corporate income taxes.

Source: OPPAGA analysis of Agency for Workforce Innovation data.

Enterprise zones also appear to have a limited effect on the legislative goal of creating jobs for zone residents, because few businesses have used the program’s job tax credits. While businesses received jobs tax credits for 8,606 employees during the five-year period, over half of these employees and one-third of the businesses receiving job tax credits were in one zone—Miami-Dade County.²⁸ As shown in Exhibit 7, 136 businesses in Miami-Dade County’s enterprise zone received approximately \$12 million in sales and use tax jobs credits for 4,475 employees, while 3 businesses in the Tallahassee-Leon County enterprise zone received a total of \$43,000 in credits for 5 employees.

Exhibit 7
Few Businesses Received Sales and Use Tax Jobs Credits in Five Enterprise Zones between 2005 and 2009

Enterprise Zone	Businesses	Credits	Tax Credit Jobs
Miami-Dade County	136	\$12,268,358	4,475
Okeechobee County	25	3,758,716	425
Gulf County	25	2,433,818	468
Jacksonville	24	675,123	392
Tallahassee/Leon County	3	43,212	5
Total	213	\$19,179,227	5,765

Source: OPPAGA analysis of Agency for Workforce Innovation and Department of Revenue data.

²⁸ The number of jobs created in each of the 57 zones can be found in Appendix B.

As shown in Exhibit 8, these jobs represented a small percentage of the total jobs in each of the three urban zones (Jacksonville, Miami-Dade County, and Tallahassee/Leon County). However, they represented approximately 23% of the jobs in the rural zone in Gulf County.

Exhibit 8
Tax Credit Jobs Represented a Small Percentage of the Total Jobs in Three Urban Enterprise Zones

Enterprise Zone	Total Jobs ¹	Tax Credit Jobs	Tax Credit Jobs as a Percentage of Total Jobs
Miami-Dade County	206,429	4,475	2.2%
Okeechobee County	5,445	425	7.8%
Gulf County	2,055	468	22.8%
Jacksonville	57,950	392	Less than 1%
Tallahassee/Leon County	26,573	5	Less than 1%

¹ These figures represent an average over the period from 2005 to 2009.

Source: OPPAGA analysis of Agency for Workforce Innovation and Department of Revenue data.

Enterprise zone coordinators rated program incentives as being only moderately effective. To further examine program effectiveness, we asked local enterprise zone coordinators to rate the program’s performance in achieving its goals in their communities. Using a scale from 1 (low) to 10 (high), zone coordinators rated the program’s effectiveness in achieving several legislative goals as moderate to low. For example, the coordinators’ average ratings of the program’s effectiveness in attracting new businesses and creating new jobs were between 5 and 6. The coordinators’ average ratings of the program’s effectiveness in achieving other goals are shown in Exhibit 9.

Exhibit 9
Enterprise Zone Coordinators Rate Program Effectiveness in Meeting Legislative Goals as Moderate to Low

Program Goal	Average Score (1 = Low, 10 = High)
Attracting new businesses	6.00
Creating new jobs	5.76
Creating new businesses	5.42
Creating jobs for zone residents	5.21
Increasing property values	4.53
Attracting new residents	3.49
Reducing crime	3.32

Source: OPPAGA survey of enterprise zone coordinators.

Local enterprise zone coordinators gave slightly higher ratings for the effectiveness of program incentives. Of the eight incentives, coordinators identified two as the most effective – sales tax refunds for building materials and sales tax refunds for business equipment. As shown in Exhibit 10, the coordinators’ average ratings for these incentives were 7.89 and 7.59, respectively. The next most highly rated incentive was the job tax credit for sales tax, with an average rating of 6.83.²⁹ The average ratings for the other incentives ranged from 5.36 to 3.40. Enterprise zone coordinators also reported that the application processes for the three sales tax incentives were relatively easy to complete and that expanding businesses found such incentives especially useful.

**Exhibit 10
Enterprise Zone Coordinators Rate the Effectiveness of Program Incentives as Moderate to Low**

Incentive	Average Score (1 = Low, 10 = High)
Building Materials Sales Tax Refund	7.89
Business Equipment Sales Tax Refund	7.59
Jobs Tax Credit (Sales Tax)	6.83
Jobs Tax Credit (Corporate Income Tax)	5.36
Sales Tax Exemption for Electrical Energy	4.48
Property Tax Credit (Corporate Income Tax)	4.17
Community Contribution Tax Credit Program	3.40

Source: OPPAGA survey of enterprise zone coordinators.

However, coordinators voiced concerns regarding some program incentives. For example, some coordinators reported that many businesses in their zones are unable to use the corporate tax credits, either because they are not corporations or they are S-type corporations that typically do not have to pay corporate income taxes. Some coordinators also reported that many businesses with part-time employees are unable to take advantage of jobs tax credits because only full-time employees who work at least 36 hours per week may qualify. In addition, they asserted that the thresholds for sales and use tax refunds for business property and building materials

²⁹ This is consistent with the findings of our 2005 report on rural enterprise zones, in which zone coordinators identified the same two incentives as being the most effective. See *The Legislature Has Several Options Available for Enhancing Rural Enterprise Zones*, OPPAGA Report No. 05-54, November 2005.

discouraged program participation among small businesses. Finally, they suggested that businesses would benefit if they could apply for incentives online.

The enterprise zone coordinators provided several suggestions for improving the program.

- Modify the jobs tax credits to include part-time employees that small businesses are likely to hire.
- Reduce the business property and equipment threshold of \$5,000 to a lower amount such as \$500 so more small businesses can use the incentive.
- Increase the sales tax refund for building material purchases from the current maximum to an amount such as \$125,000 to encourage higher-value projects.³⁰
- Simplify application forms and allow for online completion.

What options could the Legislature consider to modify the program?

Given the enterprise zone program’s low participation rate among businesses and the lack of employment growth in five of the most active zones, we identified several options the Legislature may wish to consider to modify the program.

Option 1: Modify program eligibility requirements to expand participation. To encourage increased program participation, especially by small businesses, the Legislature may wish to consider changing eligibility requirements for program incentives. While such changes may encourage more businesses to apply for program incentives, they would also reduce state revenue collections. For example, the Legislature could amend s. 212.08(5)(h), *Florida Statutes*, to lower the \$5,000 threshold for sales tax refunds on business property; some zone coordinators recommended a new threshold could be \$500. The Legislature could also amend ss. 212.096 and 220.181, *Florida Statutes*, to allow businesses to claim part-time

³⁰ The current maximum is \$5,000 or \$10,000, depending on whether 20% or more of the employees of the business receiving the incentive are residents of an enterprise zone.

employees for jobs tax credits. In addition, the Legislature could amend s. 212.08(5)(g), *Florida Statutes*, to increase the maximum sales tax refund for building material purchases, currently \$5,000.

Option 2: Target program incentives to encourage job creation. To focus the program on job creation, the Legislature could eliminate all program incentives except jobs tax credits. This change would reduce program costs by eliminating incentives estimated at \$10 million annually as well as the program administrative costs associated with those incentives. However, this change could reduce program participation and discourage business growth in the enterprise zones. As in Option 1, the Legislature could also allow businesses to claim part-time employees for jobs tax credits, although this would reduce the \$10 million cost savings.

Option 3: Implement a program moratorium to create short-term savings. The Legislature could suspend the program for one year, saving the state at least \$18 million.³¹ This option would increase state revenue collections during a time when state resources are limited because of economic conditions. However, eliminating business participation in the program for one year

³¹ This figure represents the lowest amount of program incentives awarded in a given year between 2005 and 2009.

could reduce business investment and employment growth in the enterprise zones.

Option 4: Abolish the program to create long-term savings. The Legislature could amend the statutes and abolish the program, saving at least \$18 million. This change would increase state revenue collections, but could reduce business investment and employment growth in the enterprise zones.

Option 5: Allow the program to sunset as the Legislature intended. The Legislature could allow the program to sunset on December 31, 2015, which would delay the effects of abolishing the program. As with Option 4, this option would increase state revenue collections, but could result in reducing business investment and employment growth in the enterprise zones. However, any effects would be delayed until 2016.

Agency Responses

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

OPPAGA supports the Florida Legislature by providing data, evaluative research, and objective analyses that assist legislative budget and policy deliberations. 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 (OPPAGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475). Cover photo by Mark Foley.

OPPAGA website: www.oppaga.state.fl.us

Project supervised by Kara Collins-Gomez (850/487-4257)

Project conducted by Darwin Gamble, Elizabeth McAuliffe, Larry Novey, and Alex Regalado
Kathy McGuire, OPPAGA Interim Director

Appendix A

Program Incentives for 2005 through 2009 Totaled \$160 Million

During the period 2005 to 2009, the sales and use tax refund and credit incentives were most frequently used by businesses in all 57 enterprise zones. These incentives totaled approximately \$160 million during the period. Miami-Dade County's enterprise zone received 55% of these incentives, or approximately \$88 million. The figures presented in this appendix do not include credits taken against Florida corporate income taxes because the Department of Revenue does not track these incentives for individual enterprise zones. The figures differ from those reported in Exhibit 3 because of missing data on the enterprise zones in which businesses were located.

Enterprise Zone	Jobs Tax Credit (Sales and Use Tax)		Sales Tax Refund for Building Materials Used		Sales Tax Refund for Business Machinery and Equipment Used		Total
	Businesses	Incentive	Businesses/Individuals	Incentive	Businesses	Incentive	Incentive
Miami-Dade County	136	\$12,268,358	122	\$72,915,021	104	\$2,389,939	\$87,573,318
Tampa	6	331,656	155	8,945,767	8	125,299	9,402,722
Fort Lauderdale/Broward County	5	32,427	189	8,123,532	15	78,537	8,234,496
St. Petersburg	15	1,648,521	88	5,231,326	21	115,432	6,995,279
Okeechobee County	25	3,758,716	49	191,227	21	65,967	4,015,910
Gulf County	25	2,433,818	121	1,381,168	9	33,381	3,848,367
Palmetto/Manatee County	3	38,083	78	3,681,236	13	108,951	3,828,270
Jacksonville	24	675,123	62	1,301,676	55	1,747,685	3,724,484
Tallahassee/Leon County	3	43,212	100	3,419,037	15	141,140	3,603,389
Palm Beach County	3	85,095	9	2,557,003	19	294,068	2,936,166
Gainesville	6	23,645	38	2,634,011	11	93,519	2,751,174
Jackson County	12	510,302	126	488,916	11	1,035,942	2,035,160
Hendry County	16	924,277	175	878,011	17	45,206	1,847,493
Sarasota County	1	1,736	110	1,680,554	11	19,433	1,701,723
Clearwater	0	0	8	1,675,457	1	2,120	1,677,578
Bradenton	0	0	21	1,345,952	7	114,878	1,460,830
Fort Pierce	1	414,378	5	498,064	6	195,772	1,108,214
Taylor County	6	602,898	81	424,822	8	77,913	1,105,633
Madison County	8	867,119	15	40,625	5	21,279	929,024
Daytona Beach	0	0	7	922,961	0	0	922,961
Freeport	3	395,784	7	451,054	1	5,000	851,838
Pensacola	7	109,729	84	487,384	33	206,331	803,444
Highlands County	12	647,423	9	36,943	17	83,852	768,218
Immokalee/Collier County	0	0	4	732,843	1	2,481	735,325
Washington County	9	534,663	22	90,070	11	38,097	662,830
Putnam County	3	490,579	6	25,930	6	111,411	627,920
Gadsden County	12	436,554	12	54,782	8	38,565	529,901

Enterprise Zone	Jobs Tax Credit (Sales and Use Tax)		Sales Tax Refund for Building Materials Used		Sales Tax Refund for Business Machinery and Equipment Used		Total
	Businesses	Incentive	Businesses/ Individuals	Incentive	Businesses	Incentive	Incentive
Fort Myers/Lee County	1	18,541	12	112,260	19	338,197	468,998
Wakulla County	5	259,195	9	136,897	5	62,277	458,369
Hardee County	7	354,276	12	66,138	5	16,077	436,492
DeSoto County	5	262,970	8	49,386	10	104,400	416,756
Orange County	0	0	22	337,635	9	68,446	406,081
DeFuniak Springs	2	73,747	49	165,991	5	21,307	261,045
Franklin County	8	208,209	8	43,417	1	896	252,522
Liberty County	1	195,029	14	54,507	1	1,151	250,687
Escambia County	3	19,587	15	64,289	12	158,988	242,864
Kissimmee/Osceola County	0	0	6	54,441	7	179,367	233,808
Hillsborough County	4	48,364	15	127,415	4	17,893	193,671
Lakeland	0	0	19	155,395	5	34,479	189,874
St. Marks	2	176,520	3	10,100	0	0	186,620
South Apopka	0	0	8	178,551	1	3,134	181,685
Cocoa	1	7,575	9	146,645	1	26,196	180,416
Everglades City	1	128,743	6	45,680	2	1,243	175,666
Walton County	0	0	4	174,892	0	0	174,892
Calhoun County	4	44,071	25	94,119	2	2,221	140,411
Vero Beach/Indian River County	1	1,134	5	41,307	6	81,039	123,481
Levy County	3	18,415	10	38,199	13	27,168	83,782
Glades County	1	20,989	11	54,003	3	5,302	80,295
Holmes County	4	35,668	5	21,722	1	10,000	67,390
Hamilton County	1	39,859	5	16,906	3	2,999	59,764
Sumter County	1	43,449	0	0	0	0	43,449
Brooksville/Hernando County	1	474	0	0	2	17,532	18,007
Crestview/Okaloosa County	3	12,999	0	0	1	5,000	17,999
Century	1	8,073	0	0	0	0	8,073
Pahokee	1	1,497	0	0	1	1,762	3,258
Oak Hill	0	0	0	0	2	1,526	1,526
Total^{1,2}	402	\$29,253,481	1,983	\$122,405,267	555	\$8,380,798	\$160,039,547

¹ Businesses took credits and refunds in multiple enterprise zones.

² Values were estimated for six companies that claimed job tax credits in multiple enterprise zones.

Source: OPPAGA analysis of Florida Department of Revenue data.

Appendix B

Businesses Received Jobs Tax Credits Totaling \$29 Million for More Than 8,000 Employees between 2005 and 2009

Businesses in enterprise zones that collect and pay Florida sales and use tax are allowed a monthly credit against their sales tax for wages paid to new employees who have been employed for at least three months and are zone residents. Sales and use tax jobs tax credits for the period 2005 to 2009 totaled \$29,253,481 for 8,606 employees. The Miami-Dade County enterprise zone accounted for 52% (4,475) of these employees. The figures differ from those reported in Exhibit 3 because of missing data on enterprise zones in which businesses were located.

Enterprise Zone	Businesses	Credits	Employees
Miami/Dade County	136	\$12,268,358	4,475
Okeechobee County	25	3,758,716	425
Gulf County	25	2,433,818	468
St. Petersburg	15	1,648,521	711
Hendry County	16	924,277	178
Madison County	8	867,119	85
Jacksonville	24	675,123	392
Highland County	12	647,423	68
Taylor County	6	602,898	47
Washington	9	534,663	115
Jackson County	12	510,302	84
Putnam County	3	490,579	68
Gadsden County	12	436,554	101
Fort Pierce	1	414,378	55
Freeport	3	395,784	16
Hardee County	7	354,276	34
Tampa	6	331,656	88
Desoto County	5	262,970	140
Wakulla County	5	259,195	94
Franklin County	8	208,209	48
Liberty County	1	195,029	28
St. Marks	2	176,520	13
Everglades City	1	128,743	24
Pensacola	7	109,729	35
Palm Beach County	3	85,095	18
DeFuniak Springs	2	73,747	41
Hillsborough County	4	48,364	9
Calhoun County	4	44,071	7
Sumter County	1	43,449	9

Enterprise Zone	Businesses	Credits	Employees
Tallahassee/Leon County	3	43,212	5
Hamilton County	1	39,859	4
Palmetto/Manatee County	3	38,083	40
Holmes County	4	35,668	10
Fort Lauderdale/Broward County	5	32,427	6
Gainesville	6	23,645	11
Glades County	1	20,989	3
Escambia County	3	19,587	47
Fort Myers/Lee County	1	18,541	6
Levy County	3	18,415	4
Crestview/Okaloosa County	3	12,999	16
Century	1	8,073	19
Cocoa	1	7,575	24
Sarasota County	1	1,736	7
Pahokee	1	1,497	5
Vero Beach/Indian River County	1	1,134	1
Brooksville/Hernando County	1	474	2
Total¹	402	\$29,253,481	8,086

¹ Values were estimated for six companies that claimed job tax credits in multiple enterprise zones.

Source: OPPAGA analysis of Department of Revenue data.

Appendix C



CHARLIE CRIST
GOVERNOR

STATE OF FLORIDA
Office of the Governor

THE CAPITOL
TALLAHASSEE, FLORIDA 32399-0001

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December 30, 2010

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

Dear Mr. VanLandingham:

In accordance with the provisions of subsection 11.51 (5), Florida Statutes, the Governor's Office of Tourism, Trade and Economic Development (OTTED) acknowledges receipt of OPPAGA's draft report entitled: "*Few Businesses Take Advantage of Enterprise Zone Benefits; the Legislature Could Consider Several Options to Modify the Program*" dated January 2011.

We appreciate the opportunity to review and respond to the draft report. We have no objections or questions in regard to the information presented at this time. We look forward to working with the Legislature as the options are discussed in the future.

We extend our appreciation to your staff for their thoroughness and professionalism in conducting the review of the Florida Enterprise Zone Program.

Sincerely,

A handwritten signature in blue ink that reads "Chris Hart, IV".

Chris Hart, IV
Director
Office of Tourism, Trade and Economic Development

cc: Ms. Kim Mills, Director of Auditing, Executive Office of the Governor



Executive Director
Lisa Vickers

Child Support Enforcement
Ann Coffin
Director

General Tax Administration
Jim Evers
Director

Property Tax Oversight
James McAdams
Director

Information Services
Tony Powell
Director

January 10, 2010

Ms. Kathy McGuire, Interim Director
Office of Program Policy Analysis and
Government Accountability
The Florida Legislature
111 West Madison Street, Room 312
Claude Pepper Building
Tallahassee, Florida 32399-1475

Dear Ms. McGuire:

We appreciate the opportunity to respond to the recommendations for the Department of Revenue (Revenue) in OPPAGA's January 2011 report, "Few Businesses Take Advantage of Enterprise Zone Benefits; the Legislature Could Consider Several Options to Modify the Program."

The report recommends Revenue:

- Develop written application review, validation, and approval procedures.

Revenue has procedures that are used to verify eligibility for enterprise zone credits taken on tax returns. These procedures will be documented and added as a part of the Review and Math Audit, Sales and Use Tax and Corporate Income Tax Procedures manuals by January 31, 2011.

- Develop standard procedures for processing enterprise zone credits and refunds.

Revenue, in order to take advantage of processing efficiencies, intentionally processes tax credits differently than the tax refunds.

Revenue is taking advantage of an existing business process to promote efficiency in processing. Verification of tax credits is a part of the overall examination of the tax return and allows Revenue to take advantage of existing processes to provide the taxpayer with a single result of the examination of the tax return.

Due to the nature of the enterprise zone refunds, there are several criteria that must be verified prior to issuance of the refund and are documented in the written procedures provided.

- Develop an online application process for all enterprise zone incentives.

Revenue has an online application process for refunds. Many taxpayers applying for enterprise zone refunds have done so via the Internet. The link to Revenue's online refund application is <https://taxapps3.state.fl.us/refunds/>.

For credits, Revenue uses a combination of both electronic and paper processing. Providing a complete electronic solution is desirable, but due to limited resources and the relatively limited participation in the program, other higher priority

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Ms. Kathy McGuire
January 10, 2011
Page 2

programming needs have taken precedence. Additional resources would be required to complete an electronic solution for tax credits.

- Be granted the authority to notify enterprise coordinators when it approves applications for incentives within their zones.

Revenue is currently restricted from sharing specific information regarding approval of applications with the enterprise zone coordinators due to confidentiality requirements defined by section 213.053, Florida Statutes.

However, enterprise zone refunds are summarized by zone and provided to the Office of Tourism, Trade, and Economic Development (OTTED) annually. This includes the number and amount of refunds approved, denied, or withdrawn.

- Record zone information related to the corporate income jobs tax credits in a database.

Revenue agrees that recording of the zone information related to the corporate income jobs tax credits would benefit the gathering and analysis of data regarding the effectiveness of the enterprise zone program. However, due to current limited resources and other priority programming requirements, additional resources would be necessary for this enhancement at this time. It will be addressed as resources become available.

- Modify the sales and use tax credit application form to require taxpayers to report total credits from a list that includes the jobs tax credit and reject incomplete forms.

This is a complex issue that can best be addressed by requiring electronic filing of tax returns for taxpayers claiming an enterprise zone credit. Due to the space limitations on the current paper Sales and Use Tax Return, a listing of all available credits from which the taxpayer can select would require a costly redesign of the paper tax return and associated equipment Revenue uses to efficiently process those returns. If electronic filing of the tax return was mandated for credit eligibility, this suggestion could be implemented without the expenses associated with revising the paper form.

We appreciate OPPAGA's interest in the improvement of the application review process and data reporting for enterprise zone jobs tax credits.

Please let me know if we may be of further assistance.

Sincerely,



Lisa Vickers

LV/hm/bs0

cc: Kim Mills, Director of Auditing, Office of the Chief Inspector General, Executive Office of the Governor
Kara Collins-Gomez, Staff Director, Government Operations, OPPAGA
Sharon Doredant, Inspector General, Department of Revenue
Jim Evers, Director, General Tax Administration

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January 7, 2011

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

Dear Mr. Van Landingham:

Enterprise Florida is in receipt of the preliminary report; Few Businesses Take Advantage of Enterprise Zone Benefits: the Legislature Could Consider Several Options to Modify the Program. We appreciate the opportunity to comment on the report.

The Enterprise Zone Program has had a measurable impact on improving economic conditions in some of Florida's most distressed areas. Potential modifications to the existing Programs could serve to strengthen their effectiveness and further improve economic conditions in these areas. In addition to the Programs highlighted in the report, the Enterprise Zone designation also helps to attract other businesses to these areas. For example, businesses receiving the Qualified Target Industry Tax Refund incentive are eligible for a higher award for jobs created within Enterprise Zones, prompting new, high-quality job creation within these Zones.

Enterprise Florida provides many marketing opportunities for the enterprise zone program through its web site, fact sheets, training and value propositions. Each explains the program's incentives and benefits. In addition to narrative explanations the Florida Enterprise Zone website has a map function for preliminary determination of site location within or outside of an enterprise zone.

In the discussion of changes in the program since the Legislature reauthorized the program in 2005 it should be clarified that Levy County applied for a vacant enterprise zone slot not that it was afforded the same opportunity as Sumter or Ocala.

The OPPAGA Report points out a number of program deficiencies that could make the program stronger and more effective. The Jobs Tax Credit, only available against the Corporate Income Tax or Sales and Use Tax, is not highly effective for small to medium sized manufacturers as they neither collect sales and use taxes nor do they have a significant corporate income tax liability. There have been attempts over the past several years to modify this incentive to make it have value such as allowing the credits to be transferred/sold.

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January 10, 2011

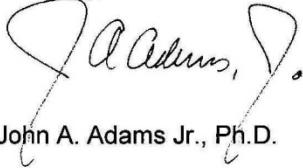
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Whether highly or moderately effective, the enterprise zone incentives, particularly in the rural areas are the only incentive available. In the Urban area it is hoped to be a tie-breaking resource. It was not designed to be a panacea but to give the most distressed areas of Florida a chance to slow down the downward economic spiral of the area by affording local governments an opportunity to increase economic activity and job creation.

In addition to the audit conducted by the Department of Revenue there has been a change in the Department's eligibility interpretation that could retroactively require refunds for projects. This shift could serve as a detriment for the entire program and could bleed over into other areas causing Florida to lose credibility with those looking to place a facility in the state.

Additionally Florida Statutes give the program a ten year life and each incentive is time certain. Any recommendations should recognize the inherent commitment by the state to those businesses already in the program and allow them the full range of incentive opportunity upon which the location decision was made.

Sincerely,



John A. Adams Jr., Ph.D.

cc: Chris Hart
Crystal Sircy