

Memo

To: Dr. Lee Niblock, County Manager
From: Edgar Campa-Palafox, Economic Development Coordinator
Date: February 6, 2015
Re: 100 Day Plan - Economic Development Section

Per your request during Leadership meeting, please find the section the Economic Development Section for the 100 Day Plan. I decided to work on the section regarding the expansion of the economic development incentives tool box In Achua County.

The Introduction to this Economic Development Incentives section was summarized and adapted from document "*International Economic Development Council (IEDC) Seeding Growth: Maximizing the Return on Incentives*" published in January 2015. The IEDC is a non-profit, non-partisan membership organization serving economic developers to promote economic well-being and quality of life for their communities, by creating, retaining and expanding jobs that facilitate growth, enhance wealth and provide a stable tax base.

Sections of this document were also taken from the "Achua County Business and Economic Growth Action Plan" presented to the BoCC in December 2014.

Economic Development Incentives

Economic development incentives are today a central tool of economic development practice. Incentives are investments made on behalf of stakeholders (the citizens of the local jurisdiction) with the objective of generating a return on incentives (ROI), a term that borrows from the private sector concept of return on investment.

When deciding where to expand or relocate, businesses usually consider three factors about a community:

- Operating costs
- Operating conditions
- Quality of life

In the long-run, local governments can influence most or all of these factors. However, in the short-term, when trying to assist a business in choosing a location to invest and/or expand, local governments actually have little influence on the costs of doing business. Incentives are inducements provided to increase a community's investment attractiveness and they are one of the only short-term tool available to local governments to help ameliorate operating conditions or decrease operating costs.

Local governments should manage their incentives with the goals of maximizing return on incentives and minimizing risks (therefore obtaining best possible results for County's tax payers and the economy). For local governments, the return on incentives can take a number of forms, such as:

- New jobs opportunities
- Increased local spending
- Increased local tax receipts

Financial incentives encompass several design dimensions and they can be:

- **Non-Financial**
Non-financial incentives include rapid permitting, business information services, networking opportunities, training, and technical assistance.
- **Direct**
Direct financial incentives, such as grants and loans, aim to reduce non-tax operating costs; tax incentives reduce firms' tax liabilities through credits and exemptions.
- **Tax-based**
Tax-based incentives are designed around reducing recipients' tax burdens by credit, abatement, or exemptions. Tax incentives can be less expensive than grants, but it is important to recognize that when tax incentives are awarded to recipients that would have located in the jurisdiction regardless of the incentive, they reduce revenue that governments would have otherwise collected. It is thus necessary that tax incentives should be carefully designed to ensure that recipients would not have located in the jurisdiction **but for** the incentive.

Incentives programs need to be evaluated regularly and rigorously so elected officials can use the findings to improve economic development policy. By rigorously evaluating the efficacy of incentives programs, local governments can reduce costs, minimize risks, and spur innovation and investment.

Best practices to design more effective incentive programs:

- Articulating a statement of the incentive's purpose
- Identifying target industrial sectors, locations, and project types whose attraction will help meet strategic economic development objectives
- Explicitly stating clear criteria for projects that will qualify for financial incentives
- Employing financial structures that provide a high degree of effectiveness for cost
- Performance-based incentives, committed to a company, but do not make payments until the objective has been verifiably achieved
- Creating mechanisms that reward companies for achieving public objectives
- Specifying the maximum amount that can be paid out under the program
- Engaging recipients in data collection over the life of the incentive

Expansion of the Economic Development Incentives Toolbox in Alachua County

For communities to maintain and boost their economic vitality, they must persuade business or investors to locate, expand or remain in the area rather than in another location. In terms of increasing the tax base, when a new business is established, the tax burden is eased in the residential community. The expansion, relocation or creating of businesses means more entities can contribute to the tax coffers to support the local services cost of local governments.

The challenging state of the national economy in the last five years has forced economic development stakeholders and local governments across the country to reevaluate traditional tools and programs, and to operate creatively in the new economic reality. The County and regional stakeholders have the unique opportunity to position itself for private investment by embracing a renewed commitment for business and economic development growth policies.

Given the need to spur economic growth without compromising the County fiscal health, it is important to consider crafting new and cost effective incentives programs that further advanced economic development.

Alachua County could explore the adoption of policies outlining additional incentives and tools to stimulate business investment. There are myriad ways that a community can adopt new incentives to attract and retain jobs. However, new incentives should be crafted in a way that works in the local, regional and state environment, maximizing the return on investment (ROI) to the local jurisdiction.

Citizens participating in the Business and Economic Growth workshop last April 2014, cited the need to be competitive with business incentives inducing investment in our community. Currently, the main business incentive utilized by Alachua County is the state Qualified Target Industry (QTI) tax refund program.

In the section below, there is a list of economic development and tax-incentive programs that Alachua County can explore their adoption to enhance the incentives toolbox and economic development competitiveness of the region.

Foreign Trade Zones (FTZ)

Source: U.S. Foreign Trade Zones Board, ia.ita.doc.gov/ftzpage/

Foreign Trade Zones Program (FTZs) were created in the U.S. to provide special customs procedures to U.S. plants engaged in international trade-related activities. Duty-free treatment is accorded items that are processed in FTZs and then re-exported, and duty payment is deferred on items until they are brought out of the FTZ for sale in the U.S. market. This helps to offset customs advantages available to overseas producers who compete with domestic industry.

FTZs are considered to be outside of U.S. Customs Territory for the purpose of customs duty payment. Therefore, goods entering FTZs are not subject to customs tariffs until the goods leave the zone and are formally entered into U.S. Customs Territory. Merchandise that is shipped to foreign countries from FTZs is exempt from duty payments. This provision is especially useful to firms that import components in order to manufacture finished products for export.

There is no time limit on goods stored inside a FTZ and certain foreign and domestic merchandise held in FTZs may be exempted from state and local inventory taxes. This allows firms to minimize their costs while their products are waiting to be shipped. In addition, quota restrictions are in some cases waived for items entering an FTZ; however, the restrictions would apply if the items were to enter the U.S. market.

A variety of activities can be conducted in a zone, including assembling, packaging, destroying, storing, cleaning, exhibiting, re-packing, distributing, sorting, grading, testing, labeling, repairing, combining with foreign or domestic content, or processing. Manufacturing and processing require specific FTZ Board approval.

FTZs are divided into general-purpose zones and subzones. State or local governments, port authorities, nonprofit organizations, industrial development authorities, or economic development agencies typically sponsor general-purpose zones. General-purpose zones involve public facilities that can be used by more than one firm, and are most commonly ports or industrial parks used by small to medium sized businesses for warehousing/distribution and some processing/assembly. Subzones, on the other hand, are sponsored by general-purpose zones, but typically involve a single firm's site which is used for more extensive manufacturing/processing or warehousing/distribution that cannot easily be accomplished in a general-purpose zone.

Recommendation:

- *Explore the feasibility of attracting a general-purpose FTZ to Alachua County to a location such as the Gainesville Regional Airport, Airport Industrial Park and current Fairgrounds Site.*
- *Explore the feasibility of spinning out a FTZ subzone to a private business that can take advantage of the program to grow.*

EB-5 Immigrant Investor

Source: U.S. Citizenship and Immigration Services

The Immigrant Investor Program, also known as “EB-5,” was created by Congress in 1990 to stimulate the U.S. economy through job creation and capital investment by immigrant investors by creating a new commercial enterprise or investing in a troubled business

There are two distinct EB-5 pathways for an immigrant investor to gain lawful permanent residence for themselves and their immediate family—the Basic Program and the Regional Center Pilot Program. Both programs require that the immigrant make a capital investment of either \$500,000 or \$1,000,000 (depending on whether the investment is in a Targeted Employment Area [TEA] or not) in a new commercial enterprise located within the United States.

The new commercial enterprise must create or preserve 10 full-time jobs for qualifying U.S. workers within two years (or under certain circumstances, within a reasonable time after the two year period) of the immigrant investor’s admission to the United States as a Conditional Permanent Resident (CPR).

Recommendation: *Explore the feasibility of attracting EB-5 allocation to Alachua County by working with a designated EB-5 center in the state of Florida.*

New Market Tax Credits (NMTC)

Source: IRS, www.irs.gov/pub/irs-utl/atgnmtc.pdf

The NMTC Program permits individual and corporate taxpayers to receive a credit against federal income taxes for making Qualified Equity Investments (QEIs) in qualified community development entities (CDEs).

These investments are expected to result in the creation of jobs and material improvement in the lives of residents of low-income communities.

A “low-income community” is defined as any population census tract where the poverty rate for such tract is at least 20% or in the case of a tract not located within a metropolitan area, median family income for such tract does not exceed 80% of statewide median family income, or in the case of a tract located within a metropolitan area, the median family income for such tract does not exceed 80% of the greater of statewide median family income or the metropolitan area median family income.

Recommendation: *Explore the feasibility of attracting an allocation of NTMC to Alachua County, specifically for booting investment in East Gainesville.*

Industrial Development Authority (IDA)

The primary purpose of an IDA is to issue tax-exempt bond financing for manufacturing facilities within a county pursuant to the Industrial Development and Revenue Bond Act of 1950. The IDA can also issue bonds for certain exempt facilities such as water and sewer projects, solid waste and hazardous waste facilities as well as bonds for tax-exempt 501 (C)(3) non-profit organizations.

An IDA supports the economic and commercial development of a County by acquiring, owning, leasing, and disposing of properties and making loans to the end that the IDA may be able to promote industry and develop trade by inducing manufacturing, industrial, governmental, nonprofit and commercial enterprises and institutions of higher education to locate in or remain in the County and further the use of its agricultural products and natural resources.

An IDA is comprised several Board of Directors who are appointed by a County Board resolution.

The Plan East Gainesville report recommended considering establishing an IDA to provide for planning, marketing, and infrastructure financing to attract light manufacturing into the area.

Recommendation: *Explore the feasibility of starting an IDA to promote the attraction of light manufacturing to the area, specifically for East Gainesville.*

Expansion of Enterprise Zone Program in Unincorporated Alachua County

The Enterprise Zone is an area that has been targeted for economic revitalization by the State of Florida. The program offers financial incentives to businesses and property owners to encourage private investment and increase employment opportunities for the area's residents.

If the Florida Legislature decides to extend the program sunset after 2015, Alachua County should seek Legislative change providing the County an opportunity to apply for an Enterprise Zone designation. Currently, the City of Gainesville is the only jurisdiction inside Alachua County that has an Enterprise Zone designation in place.

Precedents

In 2012, DEO approved three application packages and designated an enterprise zone in the following jurisdictions:

- Charlotte County ([see SB 294](#))
- Citrus County ([HB 371](#))
- City of Winter Haven ([HB 767](#))

Recommendation: *Seek Legislative change in 2016 providing the County for an opportunity to apply for an Enterprise Zone designation in unincorporated Alachua County.*

Potential Property Tax Rebate Program for Primary Employers

Subsection 3(c), Article VII, Florida Constitution, allows a county or municipality, for the purpose of its respective tax levy, to grant community and economic ad valorem tax exemptions to new business and expansion of existing businesses by ordinance, only after the electors of the county or municipality voting on such question in a referendum authorize the county or municipality to adopt such ordinance.

Currently, Alachua County does not have the authority to grant community and economic ad valorem tax exemptions to new business and expansion of existing businesses, while many communities in Florida have it.

The County, for both its general ad valorem tax and municipal service taxing unit levies, submitted this question in the required ballot question on November 5, 1996 asking for voter approval to provide general countywide and municipal service taxing unit ad valorem property tax exemptions to new businesses and expansions of existing businesses in order to promote economic development.

The Cities of Newberry, High Springs, Gainesville, Waldo, and Hawthorne, and the Town of Micanopy, submitted similar referendum questions for the November 1996 general election ballot. The City of Archer submitted a similar referendum question in a later election in 1997.

The voters of the City of Waldo, the City of Hawthorne, Town of Micanopy, and City of Archer passed the referendum. The voters of City of Gainesville, High Springs, Newberry, and Alachua County rejected the referendum question.

Recommendation: *Explore the possibility to place a vote referendum question about Economic Development ad valorem tax exemptions by Alachua County and cities in the County, asking for voter approval to provide general countywide ad valorem property tax exemptions to transformational new businesses and transformational expansion of existing businesses in order to promote economic development.*