

INDIAN RIVER COUNTY, FLORIDA

M E M O R A N D U M

TO: Jason E. Brown; County Administrator

THROUGH: Phillip J. Matson, AICP; Community Development Director

THROUGH: Bill Schutt, AICP; Chief, Long-Range Planning

FROM: Matt Kalap; Planner, Long-Range Planning

DATE: May 28, 2020

RE: **Consideration of Holding a Referendum to Renew the County Economic Development Ad Valorem Tax Exemption (Tax Abatement) Program**

It is requested that the information herein presented be given formal consideration by the Board of County Commissioners at its regular meeting of June 9, 2020.

DESCRIPTION AND CONDITIONS

On November 2, 2010, the voters of Indian River County approved a referendum to authorize the Board of County Commissioners (The Board) to grant Economic Development Ad Valorem Tax exemptions (Tax Abatements) to qualifying businesses. Pursuant to state law and County ordinance, that Tax Abatement authority expires on November 2, 2020. In order for the County to continue to offer the Tax Abatement program and avoid a lapse, the Board would need to authorize staff to proceed with a referendum requesting voter approval to renew the program for another 10 years. The referendum could be placed on the General Election ballot at no cost to the County provided proposed ballot language is provided to the Supervisor of Elections by no later than August 24, 2020.

Purpose and Eligibility

The purpose of the Tax Abatement program is to incentivize establishment of new eligible businesses that create jobs paying above the average area wage and incentivize the expansion of existing eligible businesses that create new jobs paying above the average area wage. This is accomplished through The Board approving the reduction of ad valorem property taxes on a case by case basis for certain county tax authorities for up to 10 years, including the General Fund, Municipal Services Taxing Unit, and Emergency Services District. Ad valorem property taxes for other agencies and districts, including but not limited to the School District, St. Johns River Water

Management District, Mosquito Control District, Hospital District, and Florida Inland Navigation District are not impacted by a tax abatement (100% of those taxes are collected).

Eligible businesses that can apply to the tax abatement program include industrial and manufacturing companies with at least 10 new wage eligible jobs, target industry businesses, office space for a newly domiciled business with at least 50 new wage eligible jobs, and a business or organization establishing at least 25 new wage eligible jobs, and has a sales factor that results in a high percentage of exports as established by formula in state statute.

With the Tax Abatement program, no payments are made by the County to approved companies. Tax exemptions are provided through the Tax Abatement program only after a company constructs new additions or new buildings and provides an increase in eligible jobs (new jobs to community above any prior # of jobs from company).

Economic Development Council Review

On May 19, 2020, The Indian River County Economic Development Council (EDC) met, reviewed the County's tax abatement program history, its benefits, and the potential for future use of the program should it be renewed for another ten years. After consideration, the EDC voted unanimously to recommend that The Board move forward with a referendum requesting that the Tax Abatement program be renewed for another ten years.

Board Consideration

At this time, The Board should consider whether or not the Tax Abatement program should be renewed and if so, The Board should authorize the County Attorney's Office to draft, for Board approval, proposed ballot language to provide to the Supervisor of Elections and a proposed ordinance to renew the program should it be approved by voters in November.

ANALYSIS

Since voter approval of the Tax Abatement program in 2010, 3 companies met with staff to discuss submitting a Tax Abatement application. Two of those potential applications were for minor expansions to existing facilities. In both of those cases, the companies determined after meeting with staff that the tax savings would not be significant enough to pursue and chose not to proceed further with their application. The third application, however, did move forward. That application was for INEOS New Planet Bio-Energy. One major factor that contributed to the low number of applicants was the economic recession that occurred starting in December of 2007, which had lasting effects.

INEOS

The INEOS New Planet Bio-Energy Tax Abatement was authorized on December 20, 2011 for 10 years starting in January 2013. From 2013 through 2016, when INEOS ceased operations, it **employed an average of 58 people, paid an average annual wage of \$64,707.25 and invested over \$54 million into its facility (\$46,606,919 in tangible personal property and \$7,730,758 in real property)**. During those four years, **INEOS also paid \$1,822,840.51 dollars in taxes** and received a \$1,133,066.09 abatement through the County’s Tax Abatement program (See Table 1 and Attachment 3). Of the \$1,822,840.51 in paid taxes, \$1,426,986.83 was for the School District, \$63,178.51 was for the Land Acquisition Bond, \$6,024.48 was for the Florida Inland Navigation District, \$172,327.89 was for the Hospital District, \$47,214.54 was for the Mosquito Control District, \$55,998.04 was for the St. Johns River Water Management District, \$17,137.94 was for the Emergency Services District, \$8,246.48 was for the County Municipal Services District, and \$25,725.80 was for the County General Fund.

Table 1 – INEOS Taxes Paid and Taxes Abated 2013-2016					
Taxing Authority	2013	2014	2015	2016	Total
COUNTY GENERAL FUND	\$2,447.42	\$2,635.82	\$3,426.70	\$17,215.86	\$25,725.80
COUNTY MUNICIPAL SERV	\$805.27	\$847.65	\$1,094.54	\$5,499.02	\$8,246.48
EMERGENCY SERV DIST	\$1,485.48	\$1,563.64	\$2,299.73	\$11,789.09	\$17,137.94
SCHOOL STATE LAW	\$243,019.43	\$228,234.06	\$240,462.18	\$199,165.79	\$910,881.46
SCHOOL LOCAL	\$131,381.81	\$126,289.24	\$134,097.57	\$124,336.75	\$516,105.37
ST JOHNS RIVER WATER	\$15,144.89	\$14,030.16	\$14,227.78	\$12,595.21	\$55,998.04
MOSQUITO CONTROL	\$12,353.95	\$11,502.60	\$12,378.11	\$10,979.88	\$47,214.54
HOSPITAL DISTRICT	\$44,738.09	\$43,895.26	\$46,834.47	\$36,860.07	\$172,327.89
FLORIDA INLAND NAVIG	\$1,591.53	\$1,529.84	\$1,506.07	\$1,397.04	\$6,024.48
LAND ACQUISITION BND	\$17,474.52	\$16,380.35	\$15,602.07	\$13,721.57	\$63,178.51
TOTAL TAXES PAID	\$470,442.39	\$446,908.62	\$471,929.22	\$433,560.28	\$1,822,840.51
	2013	2014	2015	2016	total
AMOUNT ABATED	\$286,747.79	\$278,496.26	\$308,145.81	259,676.24	\$1,133,066.09

Table 1. This table shows how much taxes were paid by INEOS and how much was abated per annum.

As shown in Table 2, **INEOS also added a total of \$23,817,850.14 to the local economy through payment of wages to its employees.** INEOS paid additional wages to employees of the construction company that built the facility.

Table 2 - Total Wages Paid by INEOS 2012-2016						
	Total Wages	Total Wages	Total Wages	Total Wages	Total Wages	
Quarter	2012	2013	2014	2015	2016	2012-2016
1st Quarter	\$582,184.31	\$1,419,997.70	\$1,197,779.04	\$1,300,660.65	\$1,001,850.31	\$5,502,472.01
2nd Quarter	\$1,008,494.90	\$1,430,308.33	\$1,273,553.14	\$1,242,052.77	\$1,090,600.78	\$6,045,009.92
3rd Quarter	\$940,453.56	\$1,234,801.95	\$1,238,002.21	\$1,076,821.01	\$1,383,676.62	\$5,873,755.35
4th Quarter	\$1,223,667.64	\$1,773,071.81	\$1,203,320.95	\$1,128,301.05	\$1,068,251.41	\$6,396,612.86
TOTAL	\$3,754,800.41	\$5,858,179.79	\$4,912,655.34	\$4,747,835.48	\$4,544,379.12	\$23,817,850.14

Table 2. This table shows the total wages paid by INEOS to its employees.

The closure of the INEOS facility can be tied to the fact that the technology they were utilizing was a new technology that was difficult to scale up. In addition, INEOS was attempting to develop a product (ethanol) to help reduce the Country’s dependence on foreign oil. When oil drilling technology improved and the U.S. was able to tap into its deeper oil reserves through fracking, ethanol fell out of favor by federal government programs and the potential for profitability of the technology lessened.

Tax Abatement: Potential for Future Use

While there are vacant industrial and commercial zoned properties throughout the County that could benefit from renewal of the County Tax Abatement program, one area of the County, in particular, **may have a competitive advantage for development that could be in the best position to use the tax abatement program.** That area is the “**Opportunity Zone**” comprised of all land in the County located west of I-95.

The Opportunity Zone was established after the federal Tax Cuts and Jobs Act of 2017 was enacted. Opportunity zones were nominated/approved by the governor throughout the state of Florida for a period of 10 years then certified by the U.S. Treasury. The program encourages private investment in Opportunity Zones by providing a deferment of capital gains taxes to those who utilize Opportunity Funds to invest in qualified businesses in those zones.

With respect to the area west of I-95, there are two vacant preliminarily platted industrial subdivisions in close proximity to the State Road 60/I-95 interchange that could support numerous new industries. Those industrial subdivisions are the Indian River Park of Commerce (north side of State Road 60 and west of 98th Avenue) and the Vero Beach Business Park (south side of State Road 60 and west of 98th Avenue). Since the early 2000’s, the Indian River Park of Commerce has been preliminarily platted for 23 lots (1 developed with the CVS Distribution Center) and the Vero Beach Business Park has been preliminarily platted for 28 lots.

With the overall strong economy, the ability of businesses to obtain financing to grow and expand (particularly in the Opportunity Zone), now may not be the time to remove the tax abatement

program from the County’s list of economic development tools. In fact, this may be exactly the time when the County has the opportunity to attract new businesses and to encourage the expansion of existing area businesses in the County and exactly the time to encourage the final platting and development of these two long-standing vacant industrial parks.

Once final platted, businesses could obtain approval to build facilities relatively quickly due to the fact that the lots would be part of approved and platted industrial parks, have constructed roads, installed utilities and constructed stormwater retention areas.

Potential Benefits to Different Sized Facilities

To achieve a better understanding of potential benefits of the tax abatement program, it is necessary to evaluate a few hypothetical development scenarios. To that end, below are three (3) hypothetical examples of how the Tax Abatement could be applied to:

1. An existing manufacturer expanding its operations within the County creating ten (10) additional jobs.
2. A new manufacturer locating in the County creating one hundred (100) jobs.
3. A new corporate office locating in the County creating one hundred (100) jobs.

It is important to note that the more a company invests, the larger the abatement will be. As described in the table below, an existing manufacturer expanding its operations within the County creating ten (10) additional jobs can expect a total Tax Abatement of about \$16,078.81 while investing approximately \$667,255.68, a new manufacturer locating in the County creating one hundred (100) jobs can expect a total Tax Abatement of about \$282,359.65 while investing \$6,672,556.80, and a new corporate office locating in the County creating one hundred (100) jobs can expect a total Tax Abatement of \$153,874.30 while investing \$5,236,224.00.

Table 3 – Three Hypothetical Scenarios Applying the Tax Abatement			
Tax Abatement Scoring Guidelines/Categories	Scenario #1: Existing Manufacturer with Proposed Expansion	Scenario #2: New Manufacturer with a Proposed Building	Scenario #3: New Corporate Office with a Proposed Building
New Building Square Footage	5,460 sq. ft. Expansion	54,600 sq. ft. Expansion	28,000 sq. ft. Expansion
Number of <u>New</u> Full Time Jobs Created	10	100	100
Average Annual Wage	\$45,148.00	\$45,148.00	\$65,000.00
Level of Local Capital Investment - Tangible Property	\$111,209.28	\$1,112,092.80	\$872,704.00
Level of Local Capital Investment - Building Expansion Value	\$556,046.40	\$5,560,464.00	\$4,363,520.00
TOTAL Capital Investment	\$667,255.68	\$6,672,556.80	\$5,236,224.00
Projected Tax Abatement	\$16,078.81	\$282,359.65	\$153,874.30

Table 3. This table presents three hypothetical scenarios to illustrate how much abatement a business could receive

Regional Comparison

As shown on the map on the next page and in Table 4, all of the Counties in the region have adopted Tax Abatement ordinance with the exception of Okeechobee County. Staff found that Brevard County has had a Tax Abatement program since 1994 and that 34 companies currently utilize the program. There is only one nearby county that does not have a Tax Abatement program, Okeechobee County.

Table 4 – Abatement Status of Nearby Counties		
County	Active Tax Abatement?	When does it expire?
Orange	YES	2022
Brevard	YES	2024
Osceola	YES	2020
Okeechobee	NO	N/A
St. Lucie	YES	2022
Martin	YES	2020
Palm Beach	YES	2024

Table 4. This table lists nearby counties, whether or not they have a Tax Abatement program and when their program expires.

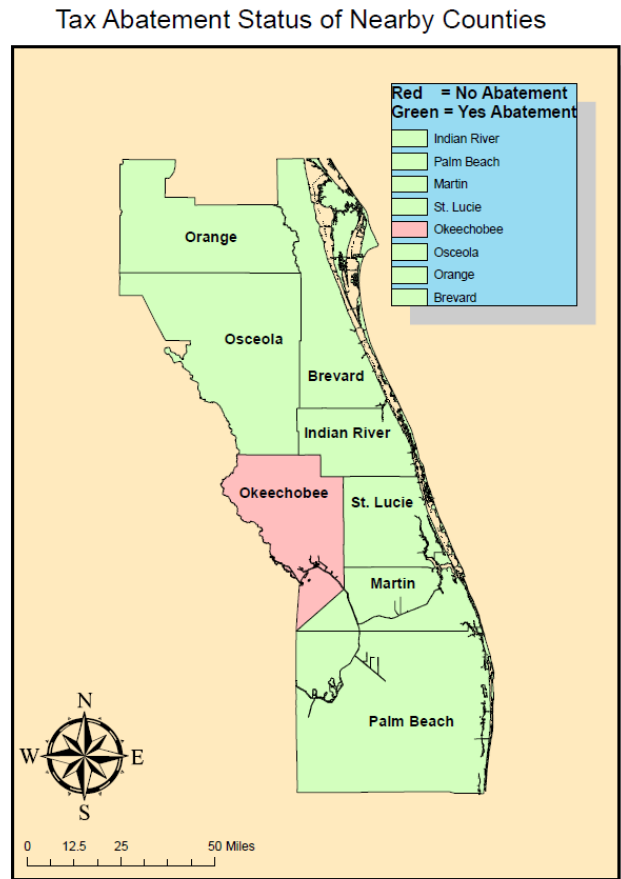


Figure 1. This figure depicts counties in close proximity to Indian River and whether they have an active Tax Abatement.

Advantages and Disadvantages of Tax Abatements

There are advantages associated with Tax Abatements. In fact, many companies use “availability of Tax Abatements” as a basic screening criterion before they will even consider further pursuit of a location. The list below points out the main advantages however, it is not an exhaustive list of all the possible advantages (See Attachment 4).

- Increase competitiveness of the County for high paying jobs
- Provides employment opportunities
- Provides a tool for economic development
- Allows for partnerships between the County and targeted industries
- Enhances economic stability
- Boosts the tax base of the county since only a portion of the Ad Valorem Taxes are exempted.

There are also a few perceived disadvantages associated with the Tax Abatement Program. This program could be perceived as a loss to the county’s tax rolls. However, that is a misconception because a business that receives an abatement through this program still pays 100% of School District taxes, Water Management District taxes, Mosquito Control taxes, Hospital District taxes, Florida Inland Navigation taxes, Land Acquisition Bond taxes (on May 19, 2020 BCC voted to payoff and will no longer be collecting unless a new General Obligation bond is issued in the future), and other special and district taxes. Additionally, the abatement time period cannot exceed ten years in length and the amount of lost tax revenue decreases over time through a sliding scale. This program could also be perceived as a gift to large companies, which is also a misconception when you factor in the amount of taxes paid and whether the community in which the business decides to locate is in need of jobs. The most significant disadvantage of the Tax Abatement program would be the fact that it is not worthwhile to small businesses to pursue. However, if small businesses can combine the Tax Abatement program with other incentives in the economic development toolbox, it can have a significant impact and reduce their tax burden.

Changes to Tax Abatement Statute Since County Adoption

Since the County adopted its tax abatement program, there have been various updates to the implementation statute (Attachment 5), including changes to clarify certain aspects of implementation, those to remove outdated references, those to increase business eligibility, and those to increase accountability. The more substantive changes worth noting include the change that increased the types of qualifying businesses for the Tax Abatement program and changes that established specific performance criteria.

With respect to additional types of businesses, the tax abatement statute now allows target industries to obtain tax abatements (Attachment 2), whereas when the County adopted the tax abatement program qualifying businesses were limited to industrial and manufacturing companies with at least 10 new wage eligible jobs, office space for a newly domiciled business with at least 50 new wage

eligible jobs, and a business or organization establishing at least 25 new wage eligible jobs, and has a sales factor that results in a high percentage of exports as established by formula in state statute. In general, Target Industries are those that are identified by the state as having a potential substantial impact on the state and local economies. Those paying high wages, often have an export component, and can be a business that might otherwise be able to locate outside of the state of Florida. Unlike the other types of qualifying businesses, there is no employment size limitation tied to Target Industries.

Regarding additional performance criteria, state statute now requires The Board to consider a list of seven criteria. Many of those criteria deal with information that companies already supply to the County as part of their Tax Abatement application. Items not currently included on the County's Tax Abatement application include consideration of environmental impact of the proposed business or operation and the extent to which the applicant intends to source its supplies and materials within the County. With respect to environmental impact, this is something that is considered by the Community Development Department in its site plan review processes, but could also be acknowledged by The Board during the Tax Abatement application review. The extent to which the applicant intends to source its supplies and materials within the County, is not an item that otherwise would be reviewed through an established process like site plan review. The criteria would need to be considered at time of Tax Abatement application review. There is no specific percentage or quantity of supplies and materials an applicant company would need to source locally, only that it be considered.

If The Board decides to proceed with a Tax Abatement ordinance amendment and Tax Abatement Renewal Referendum, applicable changes in state statute would need to be part of the ordinance revisions that are ultimately approved by The Board. Staff would also revise the Tax Abatement Application (Attachment 6) as appropriate to include the specific review criteria listed in statute.

CONCLUSION

Based on the analysis conducted, the Tax Abatement program is limited to new real property improvements and added tangible personal property associated with qualified businesses/industries and therefore, exempts only a portion of the ad valorem property taxes collected by the County. The business receiving an abatement still pays 100% of the School District taxes, Water Management District taxes, Mosquito Control taxes, Hospital District taxes, Florida inland Navigation taxes, and other special and district taxes. Taxing districts that would be subject to an abatement would be the Municipal Services Taxing Unit, General Fund, and Emergency Services District. Furthermore, per state law, the exemption cannot last longer than one 10 year period and, the exemption does not apply to improvements to real property or to tangible personal property which were included on the tax rolls prior to the effective date of the exemption ordinance.

In short, renewing the Ad Valorem Tax Exemption (Tax Abatement) ensures that Indian River County will remain competitive with other counties in the state when a company is considering to relocate and when an existing company is considering expansion, not renewing the Tax Abatement program would provide one less economic development tool for the county to utilize.

RECOMMENDATION

Staff and the EDC recommends that the Board of County Commissioners move forward with a referendum requesting that the Tax Abatement program be renewed for another ten years. Staff also recommends that the Board direct the County Attorney's Office to draft an ordinance that a) includes ballot language for a voter referendum in November 2020 to renew the Tax Abatement Program for another ten years; and b) modifies Title XI of the Indian River County Code of Ordinances to extend the Tax Abatement Program should it be renewed for another 10 years.

ATTACHMENTS

1. F.S. Section 196.1995
2. List of Targeted Industries
3. INEOS Summary of Taxes and Taxes Exempted 2013-2016
4. Advantages of Tax Abatements
5. Changes to Tax Abatement Statute Since County Adoption
6. Tax Abatement Application