The Florida Senate

COMMITTEE MEETING EXPANDED AGENDA

COMMERCE AND TOURISM
Senator Detert, Chair
Senator Abruzzo, Vice Chair

MEETING DATE: Monday, January 13, 2014
TIME: 4:00 —6:00 p.m.
PLACE: *Toni Jennings Committee Room,* 110 Senate Office Building

MEMBERS: Senator Detert, Chair; Senator Abruzzo, Vice Chair; Senators Bean, Hays, Hukill, Margolis, Richter, Ring, Simpson, Stargel, and Thompson

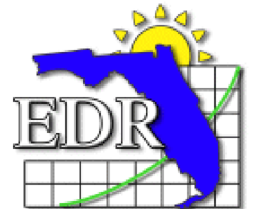
TAB	BILL NO. and INTRODUCER	BILL DESCRIPTION and SENATE COMMITTEE ACTIONS	COMMITTEE ACTION
1	Presentations on Economic Development Programs Evaluation - required by CS/CS/HB 7007 (SB 1024; ch. 2013-39, L.O.F.) Office of Economic and Demographic Research		
2	Office of Program Policy Analysis and Government Accountability		Presented
	Other Related Meeting Documents		Presented

An electronic copy of the Appearance Request form is available to download from any Senate committee page on the Senate's website, www.flsenate.gov

Return-on-Investment for Select Economic Development Incentive Programs

January 2014

Presented by:



The Florida Legislature
Office of Economic and
Demographic Research
850.487.1402
http://edr.state.fl.us

Statutory Requirement...

- Legislation passed during the 2013 Session directs the Office of Economic and Demographic Research (EDR) and the Office of Program Policy Analysis and Government Accountability (OPPAGA) to analyze and evaluate 18 state economic development incentive programs on a recurring three-year schedule.

- The strict three-year window captures a mix of projects that began prior to the period and continue throughout or that began during the period. Ideally, the snapshot provides a fair representation of ongoing conditions over time; however, future reviews will provide a better indication of the ROI's stability. Measurements for programs with a significant number of projects are likely to be more reliable.

- The first review period covers Fiscal Years 2009-10, 2010-11, and 2011-12. The following programs are under review:

  - Capital Investment Tax Credit - CITC;
  - Qualified Target Industry Tax Refund - QTI;
  - Brownfield Redevelopment Bonus Tax Refund - BFRD;
  - High-Impact Sector Performance Grant - HIPI;
  - Quick Action Closing Fund - QACF;
  - Innovation Incentive Program - IIP; and
  - Enterprise Zone Program - EZ.

EDR's Charge...

- EDR is required to evaluate the economic benefits of each program, using project data from the three-year period, and to provide an explanation of the model used in its analysis and the model's key assumptions.
- Economic Benefit is defined as "the direct, indirect, and induced gains in **state revenues** as a percentage of the state's investment" – which includes "state grants, tax exemptions, tax refunds, tax credits, and other state incentives."
- In the report, the term Return-on-Investment (ROI) is synonymous with economic benefit, and is used in lieu of the statutory term. This measure does not address issues of overall effectiveness or societal benefit; instead, it focuses on tangible financial gains or losses to state revenues, and is ultimately conditioned by the state's tax policy.
- EDR's evaluation also requires identification of jobs created, the increase or decrease in personal income, and the impact on state Gross Domestic Product (GDP) for each program.

Return-on-Investment...

- As used by EDR for this analysis, the returns can be categorized as follows:

  - **Greater Than One (>1.0)…**the program more than breaks even; the return to the state produces more revenues than the total cost of the incentives.
  - **Equal To One (=1.0)…**the program breaks even; the return to the state in additional revenues equals the total cost of the incentives.
  - **Less Than One, But Positive (+, <1)…**the program does not break even; however, the state generates enough revenues to recover a portion of its cost for the incentives.
  - **Less Than Zero (-, <0)…**the program does not recover any portion of the incentive cost, and state revenues are less than they would have been in the absence of the program because taxable activity is shifted to non-taxable activity.

- The numerical ROI can be interpreted as return in tax revenues for each dollar spent by the state. For example, a ROI of 2.5 would mean that $2.50 in tax revenues is received back from each dollar spent by the state.

Results...

The seven programs are evaluated over 14 scenarios, which include projects that receive awards from only one program (single incentive) and projects that receive awards from multiple programs (bundled). Culled scenarios have had projects that are clearly Florida market or resource dependent removed.

For comparative purposes, the evaluation also develops two hybrid scenarios that combine all projects in the review (excluding the Enterprise Zone program) for a total of 16 scenarios. These hybrid measures serve as a benchmark for the individual programs.

Return-on-Investment for the 3 year period

	Scenario	ROI
Greater Than One (>1.0)		
	QTI Bundled	6.9
	QTI Single	6.8
	QTI Single (Culled)	6.4
	QACF Single	6.1
	BFRD Single	4.0
	CITC Bundled	2.3
	CITC Single	1.9
Approximately Equal To One (=1.0)		
	Hybrid 1*	1.5
	Hybrid 2**	1.1
	QACF Bundled	1.1
	BFRD Single (Culled)	1.1
Less Than One, But Positive (+, <1)		
	HIPI Bundled	0.7
	IIP Bundled	0.2
	IIP Single	0.1
Less Than Zero (-, <0)		
	EZ 1***	-0.04
	EZ 2****	-0.05

** Hybrid 1 is Weighted Average of Bundled Projects*

*** Hybrid 2 is Weighted Average of ALL Projects*

**** EZ 1 is No Property Appreciation*

***** EZ 2 is With Property Appreciation*

Greater Than One...

Scenario	ROI
QTI Bundled	6.9
QTI Single	6.8
QTI Single (Culled)	6.4
QACF Single	6.1
BFRD Single	4.0
CITC Bundled	2.3
CITC Single	1.9

Other than the special case of Brownfield Single, the programs in the Greater Than One category possess one or more elements that lead to their high ROIs:

- Capital Investment Requirements
- High Wage Requirements
- Large Industry Multipliers
- Non-Economic Forces Affecting Costs and Benefits

Program Emphasis...

- **Capital Investment Requirements –** Capital investment usually takes the form of construction. The benefits of construction are typically localized. In this regard, the work is labor intensive and the wages are spent locally which drives up indirect and induced effects. In addition, many of the materials used in construction projects are purchased locally and are generally taxable. Relative to other industries, there are few leakages to the rest of the world.

- **High Wage Requirements –** The top four scenarios share high wage requirements. In the Statewide Model high wages are linked to higher output and productivity which results in more household spending. This program feature is best exemplified in the QTI program scenarios and the QACF single-incentive project scenario. While the IIP and HIPI programs also have this requirement, the positive aspect of this feature is offset by other factors that adversely affect program ROI.

Industry Effects...

- **Large Industry Multipliers –** Industries with high multipliers typically have strong backward linkages to local suppliers. They also have high employment multipliers. Both of these factors result in greater indirect and induced benefits. Relative to other industries, there are few leakages to the rest of the world. Examples are found by looking at multipliers in manufacturing industries.

State of Florida Aggregate Type II Multipliers (2002/2007)

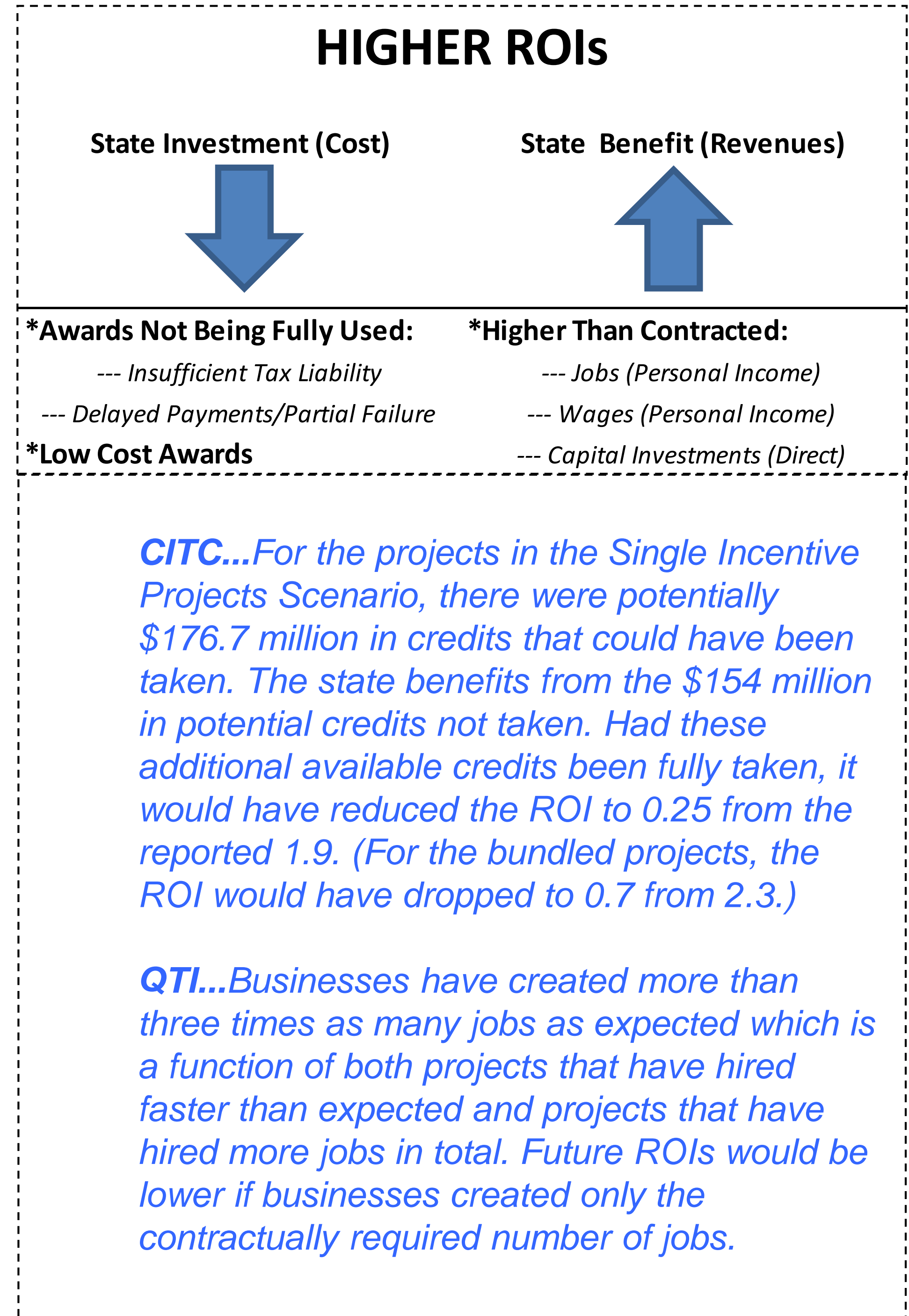
Industry	Multiplier Direct Effect Earnings (dollars)	Multiplier Direct Effect Employment (jobs)
Crop and Animal Production	2.2417	1.6801
Forestry, fishing, and related activities	2.0920	1.6618
Mining, except oil and gas	2.0099	3.1418
Utilities	1.7595	2.8774
Construction	1.8981	1.9967
Fabricated Metal Product Manufacturing	2.0443	2.1938
Computer and Electronic Part Manufacturing	2.3997	3.5272
Miscellaneous Manufacturing	1.8788	2.6587
Chemical Manufacturing	2.7699	4.1944
Wholesale Trade	1.8347	2.3644
Retail Trade	1.7763	1.5674
Air Transportation	1.9280	2.5293
Warehousing and Storage	1.7632	1.7905
Internet and Other Information Services	1.9398	2.5371
Credit intermediation and related services	2.0484	2.5995
Real Estate	2.8866	1.8975
Professional, Scientific, and Technical Services	1.6933	2.1082
Management of Companies and Enterprises	1.8285	2.9350
Administrative and Support Services	1.7091	1.4624
Educational Services	1.7702	1.6030
Hospitals	1.7646	2.0150
Performing Arts, sports, museums, and parks	1.9371	1.7188
Accommodation	1.9141	1.7708
Other Services	2.0108	1.7248

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Input-Output Modeling System (RIMS II)

Note: Current Target Industries are highlighted in yellow.

ROI Formula...

- **Non-Economic Forces Affecting Costs and Benefits –** In some scenarios, awards are not fully used – and in others, jobs, wages, and capital investments are being created in excess of the state's contracted levels. These circumstances artificially increase the ROI for the programs by reducing the state's cost or increasing the state's benefit. However, if businesses were able to receive the incentives' full face value or limited job creation to the minimum jobs required, the ROIs would be lower, and the difference is a risk to the state.



Approximately Equal To One...

Scenario	ROI
Hybrid 1*	1.5
Hybrid 2**	1.1
QACF Bundled	1.1
BFRD Single (Culled)	1.1

The scenarios in the Approximately Equal To One category are essentially breaking even, with the additional state revenues covering the cost of the program.

- The Hybrid 1 and 2 scenarios were developed to provide benchmarks.
  - Hybrid 1 combines all bundled projects, but treats them as one program rather than distinguishing between specific programs.
  - Hybrid 2 is similar to Hybrid 1, but includes all single-program projects in addition to the bundled projects. This measure looks at the universe of projects.

- The ROI for QACF Bundled is negatively affected by the relative size of the Closing Fund award to the amount awarded from other economic development incentive programs. On average the Closing Fund award is approximately 46 percent of the total economic development incentive awarded to the business, yet it has the strongest overall requirements of its bundled counterparts.

- In Brownfield Single (Culled), six of the nine projects were removed because of Florida market or resource dependency; however, the state's payments remained. The "culled" scenario provides the best representation of the program's ROI.

Less Than One, But Positive...

Scenario	ROI
HIPI Bundled	0.7
IIP Bundled	0.2
IIP Single	0.1

The scenarios in the Less Than One, But Positive category are not recovering the cost of the state's investment in them.

- The low ROI for HIPI Bundled is attributable to the industry composition of the projects. Unlike other industries such as manufacturing, the research and development sector does not generate significant taxable output. Without the program's capital investment requirement, the ROI of the program would be even lower.

- The ROIs for IIP Bundled and Single are negatively affected for several reasons: (1) the awards are very large given the output; (2) half of the capital investment associated with these projects occurred prior to the time period under review, leaving only residual capital benefits; (3) the research and development industry has smaller multiplier effects than some other industries; and (4) the program is designed to generate a break-even ROI after 20 years and EDR's analysis covers only three years in the early stages of the program.

Less Than Zero (Negative)...

Scenario	ROI
EZ 1	-0.04
EZ 2	-0.05

The scenarios in the Less Than Zero or Negative category are not recovering any part of the cost of the state's investment, and actually reduce state revenues below what they would have been in the program's absence.

- **EZ 1** assumes there is no positive economic gain to the state and no detectable property appreciation within the zones relative to surrounding areas. No new output or investment was attributed to EZ businesses in the model. Only the state payments to the EZ businesses were included, which totaled approximately $115 million in the review period.

- **EZ 2** assumes there is some positive economic gain associated with property appreciation in the Enterprise Zones. The approach uses increases in local property tax revenue attributable to EZs to measure an incidental benefit to the state. This possibility was developed by using the results contained in the 2013 EDR study entitled "Florida's Enterprise Zones: Impact on Property Taxes" which found that the differential growth rate between parcels located within the Enterprise Zone and parcels in a 2-mile buffer outside the Enterprise Zone narrowed to the zones' favor after creation—given sufficient time.

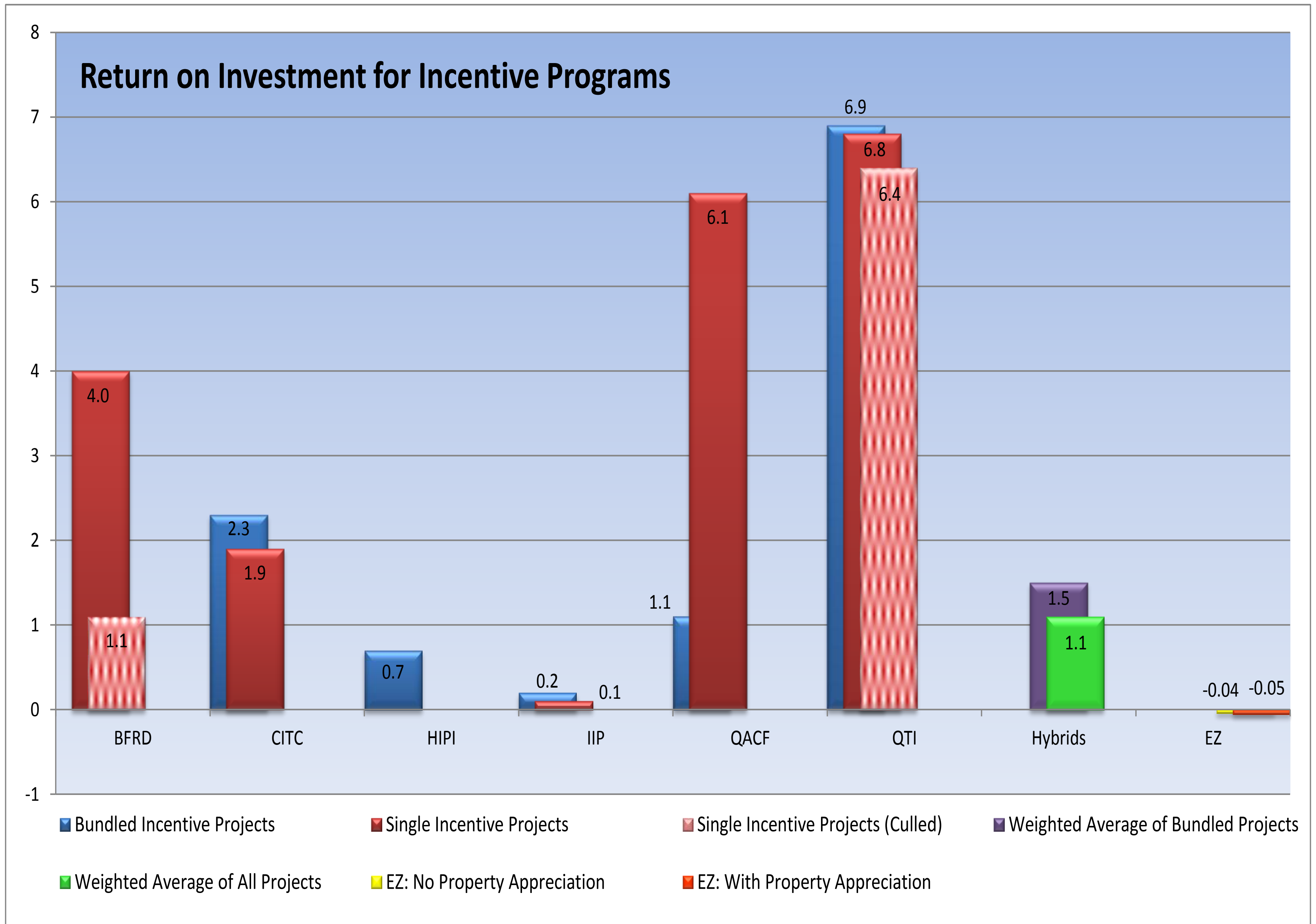
Enterprise Zones...

- EDR’s research found that the state Enterprise Zone program produces a negative ROI. The analysis does not evaluate the impact of EZ incentives on the local economy which clearly would have had some benefit from the additional local government spending in the second scenario (GDP, Output, Consumption by Households and Government, and Total Employment turn positive in the second scenario).

- From the state’s perspective, previously taxable activity has been converted to non-taxable activity. Further, to the extent the state funds supporting the incentive could have been more productively spent elsewhere and the business activity would have occurred anyway, the state actually foregoes revenues beyond the direct cost of the incentives.

- EDR’s assessment regarding the Enterprise Zone program is consistent with recent evaluations of similar programs in other states and the United Kingdom.

Comparison Across Programs



ROI Conclusions...

- Ultimately, a program with a ROI above 1 has sufficient justification from a financial perspective to continue the state's investment in the program.

- In this regard, decision-makers have several options as to the appropriate evaluation standard to use: breaks even; equals or improves upon the result of Hybrid Scenario #1 (all bundled projects; ROI of 1.5); or, equals or improves upon the result of Hybrid Scenario #2 (all projects; ROI of 1.1).

- Only policy considerations such as societal benefit or another economic measure would justify the continuance of programs that fail to break even or go negative.

Other Economic Measures...

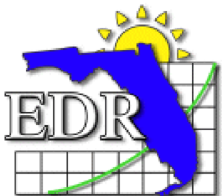
Scenarios Ranked by ROI and Economic Indicators*

Scenario	ROI	Personal Income	GDP	Overall Employment
	for 3 year period	*average per year per investment $*		
QTI Bundled	**1**	3	3	2
QTI Single	2	**1**	**1**	4
QTI Single (Culled)	3	2	2	5
QACF Single	4	4	4	3
BFRD Single	5	5	5	**1**
CITC Bundled	6	8	7	8
CITC Single	7	9	9	7
QACF Bundled	8	6	6	6
BFRD Single (Culled)	9	7	8	9
HIPI Bundled	10	10	10	10
IIP Bundled	11	11	11	11
IIP Single	12	12	12	12
EZ 1	13	13	14	14
EZ 2	14	14	13	13

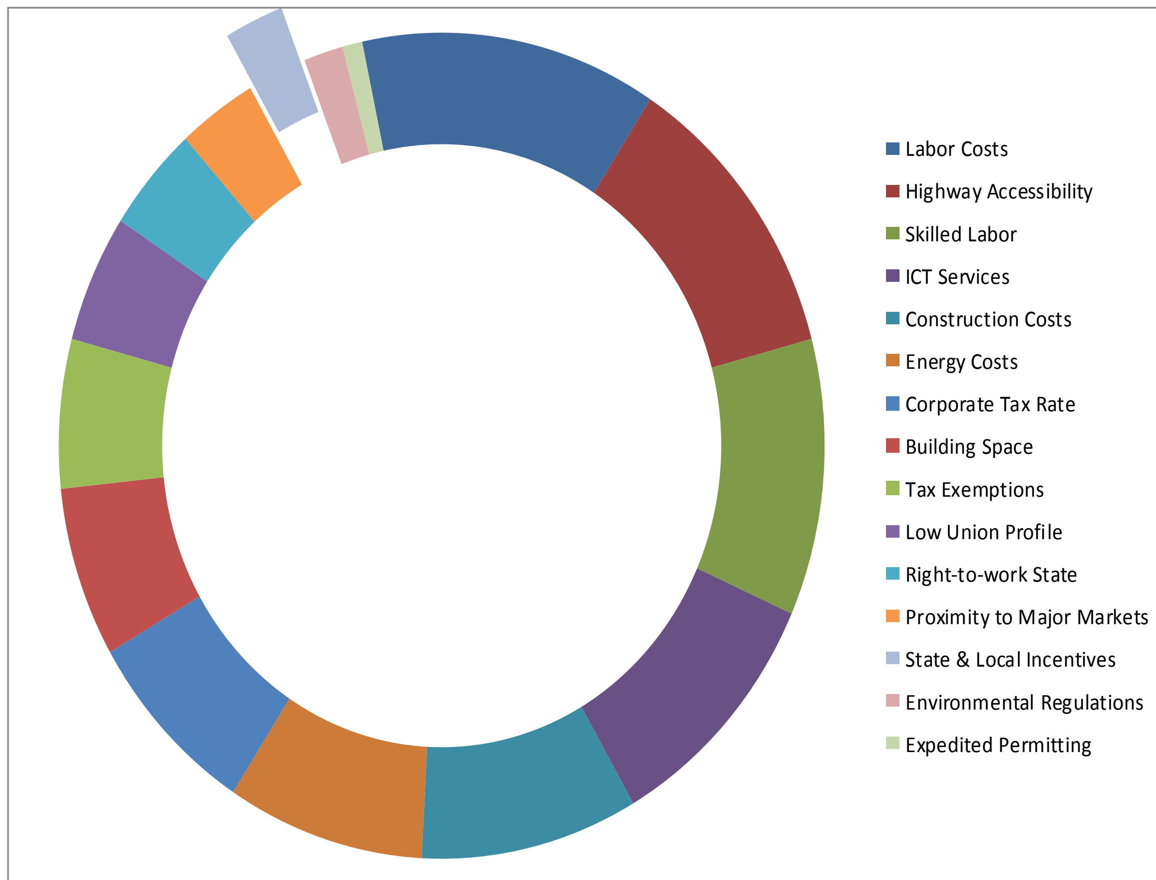
*Scenarios are ranked from 1 to 14, with 1 being the highest. Personal Income, GDP, and Employment rankings are based on calculations of the state's average investment per year compared to the average economic impact in order to account for program size.

The other economic indicators have been adjusted to reflect averages per year per investment dollar. The results are very similar to the ROI rankings with the QTI scenarios being at the top for most measures. The cost of the award per job created provides the greatest differences.

Discussion of Seven Key Assumptions Used in the Analysis



Role of Incentives...



The heads of Florida's economic development agencies believe that incentives are used to compensate businesses for deficiencies in operating conditions and quality-of-life factors relative to the next viable location. Unlike other static site selection factors like labor costs, incentives can be adjusted to meet the needs of individual projects.

EDR's analysis assumes that state incentives were the determining factor in business retention, expansion, or location decisions, provided the program was created and designed to attract new business activity to the state. Otherwise, the ROIs would have been lower. However, this assumption was relaxed in certain scenarios.

Classification of Incentives...

- Direct Financial Incentives are subject to appropriation and can be targeted through pre-screening and selection processes.
  - Qualified Target Industry Tax Refund
  - Brownfield Redevelopment Bonus Tax Refund
  - High-Impact Sector Performance Grants
  - Quick Action Closing Fund
  - Innovation Incentive Program

- Tax-Based Incentives use the state's tax code. While they generally function like direct financial incentives, from the business operating perspective, they have more uncertainty because they are typically subject to having sufficient tax liability or taxable activity to take full advantage of the incentive. The recipient may also experience timing delays related to tax filing deadlines.
  - Capital Investment Tax Credit
  - Enterprise Zone Program

- EDR's analysis assumes that businesses are indifferent between tax credits and cash awards and will not change their behavior based on the type of incentive award given. Otherwise, tax-based incentive programs would (1) delay state costs, and (2) reduce output, which is the typical business response to uncertainty. The ROI impact is unclear and would depend on the relative changes between the two factors.

Federal Tax Implications of State Incentives...

- While the state cost equals the face value of the economic development incentive, the incentive's federal tax treatment diminishes its value to the recipient business since it will pay part of the incentive to the federal government in the form of increased taxes.

- This asymmetric valuation suppresses the ROI if it is fully taken into account by reducing the state benefit coming directly from the business. For example, if the tax leakage to the federal government were not present, the business would either have been able to hire more employees at the awarded incentive level or it would have hired the same number of employees at a reduced incentive level—assuming all else is equal.

- EDR's analysis assumes businesses receive the full value of the state incentives and that related costs such as federal taxes are immaterial to the decision making process. Otherwise, the benefits—and the ROIs—would have been lower.

Federal and Local Incentives...

- Projects funded by state incentives may also receive federal and local incentives.
- From the business perspective, it may be that this total combination of incentives is necessary to be determinative to its decision regarding expansion, retention, or relocation.
- Data does not currently exist that shows the extent to which local and federal incentives are combined with the projects under review.
- EDR's analysis assumes that the influence of any federal incentives awarded to state-funded projects is immaterial to the size and location of the project. This is also true for local incentives; however, this assumption was relaxed for required local matches.
- Otherwise, excluding the local and federal incentives from the calculation likely overstates the ROI, jobs created, change in personal income, and change in state GDP attributed to the state incentive.

Treatment as a Subsidy...

- From an economic perspective, incentives are public subsidies intended to induce an economic activity or capital investment by a private business in a jurisdiction in which such activity or investment would not otherwise take place.

- Even though subsidies can be used to accomplish specific policy goals, they cause market distortions which result in inefficiencies and inequalities in the marketplace. This outcome forces decision-makers to weigh the negative repercussions of incentives against the benefits associated with the underlying goal.

- EDR's analysis assumes that businesses treat the incentives as subsidies. The subsidies lower the cost of production for each individual firm. Otherwise, to the extent that market distortions exist, the ROI may be overstated.

Florida Market and Resource Dependent Projects...

- Some projects are Florida market or state resource dependent. These are projects where the business' clients are primarily based in Florida or the business is dependent on Florida's resources to produce its products or services.

- While the projects may be technically qualified to receive an incentive from a program, there is no new state revenue resulting from those projects since the businesses are otherwise tied to Florida, meaning the state would have already been their location choice.

- EDR's analysis generally assumes that the output from projects expands the state's economy; however, this assumption was relaxed in certain circumstances. Otherwise, the program's ROI is overstated to the extent these projects are included. For this reason, the "culled" scenarios provide a better representation of the affected program's ROI for single incentive projects.

"But For"—Inducing Business Location Decisions with Incentives...

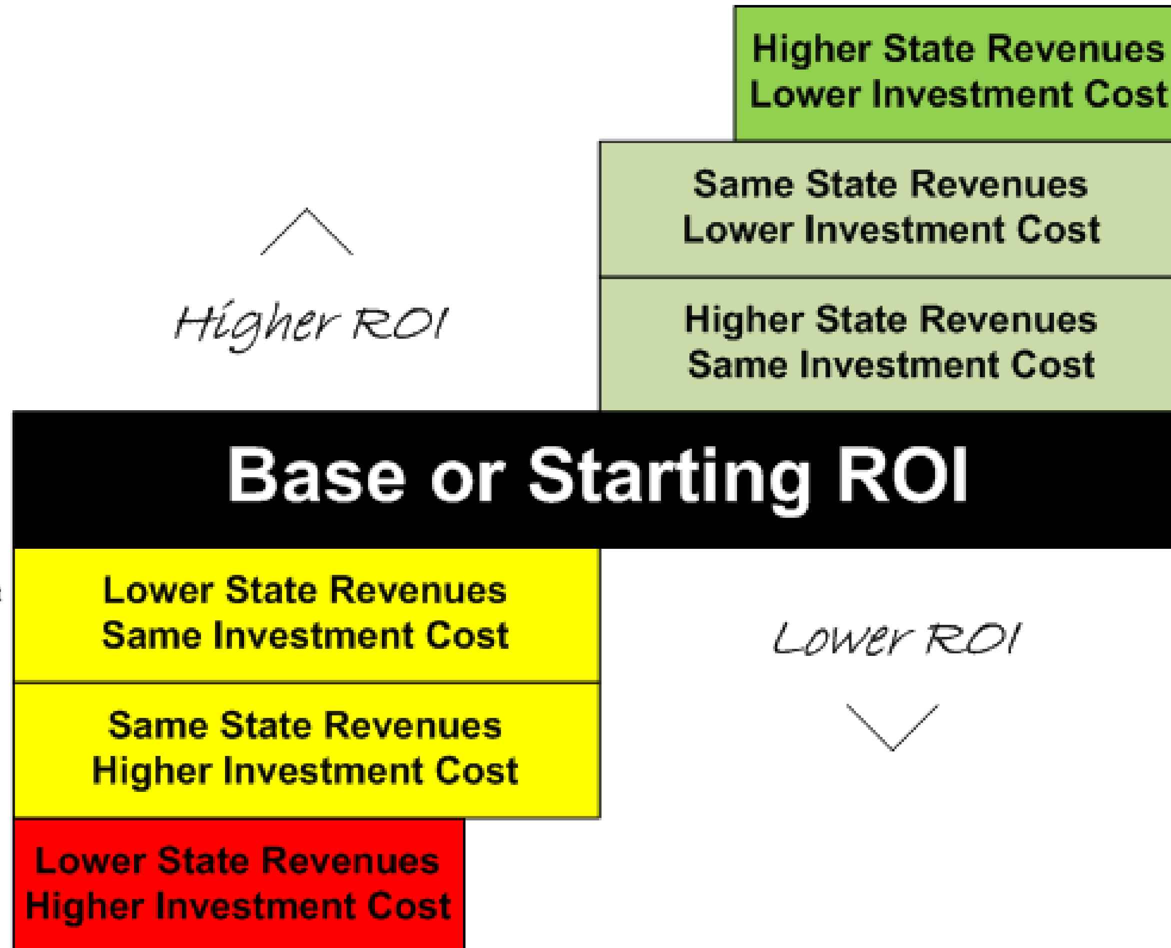
- As the use of incentives has proliferated, the question of whether the activity would have otherwise taken place has dominated recent research. At this point, the academic research on the "but for" issue is inconclusive.

- If incentives are the primary, or at least the determining factor, in expansion or relocation projects, the result would validate a positive ROI calculation. However, if the award of incentives is unrelated to such decisions, the ROI would swing negative since the new economic activity would have happened absent the incentive and without the state's cost.

- Any unnecessary state expenditure on incentives has two negative outcomes: a shift of private business costs to the general class of taxpayers and a reduction in available funding for other public services, some which promote or are necessary for economic growth.

- Based on available research and the program's design, the entire Enterprise Zone Program was assumed to fail the "but for" test. For the other programs, the ROI would be overstated to the extent that individual businesses would have made the same decisions absent the incentives.

Changing the Reported ROI...



Actions that::

- Reduce Award Amount Per Project

Actions that:

- Add or Increase Capital Investment, Wage or Employment Requirements
- Designate Industries with Largest Multipliers

Actions that:

- Remove or Reduce Capital Investment, Wage or Employment Requirements
- Allow Industries with Smaller Multipliers

Actions that:

- Increase the Award Amount Per Project with No Other Changes

THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

____
Meeting Date

Topic: ROI Report

Bill Number: N/A *(if applicable)*

Name: Amy J. Baker

Amendment Barcode: N/A *(if applicable)*

Job Title: Coordinator, EDR

Address: Suite 574, Pepper Bldg
Street

Talla — FL — 32399
City — *State* — *Zip*

Phone: 850-487-1402

E-mail: baker.amy@leg.state.fl.us

Speaking: ☐ For ☐ Against ☒ Information

Representing: EDR

Appearing at request of Chair: ☒ Yes ☐ No

Lobbyist registered with Legislature: ☐ Yes ☒ No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

This form is part of the public record for this meeting.

S-001 (10/20/11)

Florida Economic Development Program Evaluations – Year 1

A Presentation to the Senate Committee on Commerce and Tourism

Larry Novey, Chief Analyst

January 13, 2014

Project Scope

- As directed by the Legislature, EDR and OPPAGA completed detailed analyses of state economic development programs that received economic incentives during the previous three years
- Seven programs were included in the analyses
- EDR evaluated and determined the economic benefits (i.e., return-on-investment) of each program
- OPPAGA evaluated each program for effectiveness and value to the state's taxpayers

OPPAGA Methodology

- OPPAGA analyzed a variety of information on projects that received program incentives during the review period
  - Contracted and confirmed jobs and capital investments
  - Incentive payment, tax refund, tax credit, and administrative cost data
  - Incentive claims processing information
  - Survey and interview responses from incentive recipients, economic development organizations, and site selection consultants
- OPPAGA also conducted a file review to assess the completeness of DEO incentive recipient project files
- In addition, OPPAGA performed specialized quantitative analysis for several programs

Background

- The seven incentive programs under review include tax credits, tax refunds, and cash grants
- The primary purpose of each program is to attract and grow businesses in Florida, including promoting job creation and capital investment
- Two programs also have other goals, such as revitalizing economically distressed areas and encouraging technology cluster development

Several Entities Administer the State's Economic Incentive Programs

- Four entities are primarily responsible for administering the seven incentive programs currently under review
  - Enterprise Florida, Inc. (EFI)
  - Department of Economic Opportunity (DEO)
  - Department of Revenue (DOR)
  - Department of Financial Services (DFS)

Most Incentive Programs Are Managed Using Similar Processes

- In general, economic incentive programs are subject to the same application and approval process
- Economic incentive programs currently under review are subject to performance monitoring
  - Each incentive recipient is required to provide documentation to DEO demonstrating that it met contractual requirements
  - DEO is required to validate the performance of businesses that receive incentives, including verifying job creation and capital investment

Projects that Received State Incentives During Fiscal Years 2009-10 through 2011-12 Have Collected $668.9 Million

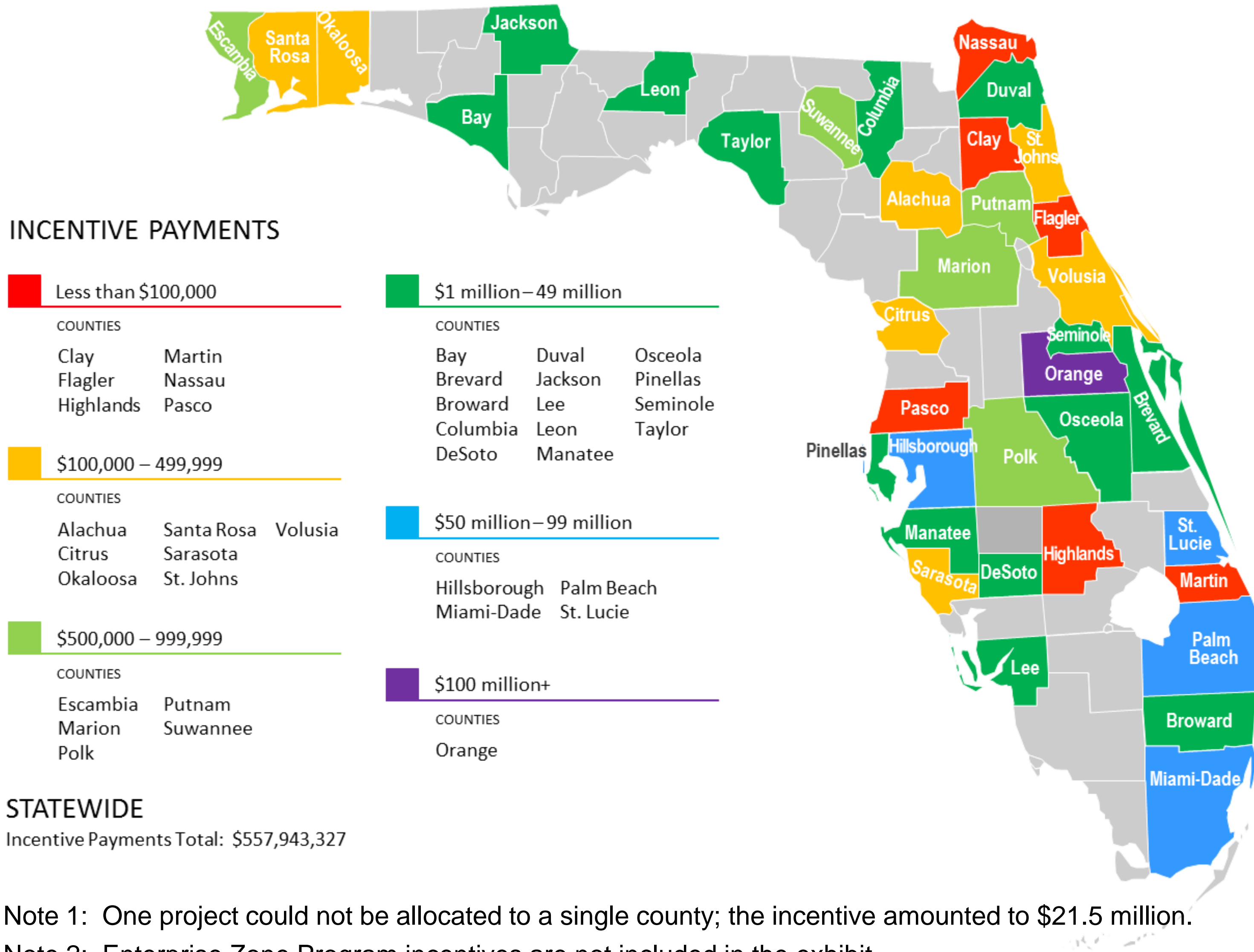
Program	Number of Projects	Contracted	Received
Brownfield Redevelopment Bonus Refund Program	9	$3,472,500	$1,945,102
Capital Investment Tax Credit Program	8	NA[1]	60,643,426
High Impact Performance Incentive Program	2	2,000,000	1,000,000
Innovation Incentive Program	8	449,690,000	368,043,853
Qualified Target Industry Tax Refund Program	166	120,570,800	54,053,350
Quick Action Closing Fund Program	41	78,180,330	72,257,596
Enterprise Zone Program	NA	NA[1]	110,931,262
Total[2]	**192**	**$653,913,630**	**$668,874,589**

[1] Companies can take a credit against taxes paid.

[2] This total reflects the number of unique incentive projects, but does not include Enterprise Zone incentive recipients.

Source: OPPAGA analysis of Department of Economic Opportunity and Department of Revenue data.

Projects in 37 Counties Received These Incentives



Note 1: One project could not be allocated to a single county; the incentive amounted to $21.5 million.

Note 2: Enterprise Zone Program incentives are not included in the exhibit.

Source: OPPAGA analysis of Department of Economic Opportunity data.

Incentive Administrative Costs Totaled $6.2 Million for Fiscal Years 2009-10 through 2011-12

Agency	Administrative Costs
Department of Economic Opportunity	$4,382,598
Department of Revenue	1,549,416
Enterprise Florida, Inc.	310,500
Department of Financial Services	5,658
Total Administrative Costs	**$6,248,172**

Source: OPPAGA analysis of data from Enterprise Florida, Inc., and the Departments of Economic Opportunity, Financial Services, and Revenue.

Findings

- Incentives are important, but not the only factor in businesses' decisions to expand or locate in Florida; the majority of recipients are existing in-state businesses
- Overall, incentive recipients have exceeded job creation and capital investment requirements; however, achievement of performance goals varies significantly by program
- Some incentive programs have not yet achieved other legislative goals
- DEO's process for administering and monitoring incentive programs could be improved

Incentives Important, but Not Only Factor in Decisions to Expand or Locate in Florida; Most Incentive Recipients Are In-state

- Incentives are important, but businesses consider many other factors when making project decisions
- Despite the availability of incentives in Florida, many businesses considered conducting their projects in other states
- Businesses generally sought incentives to expand operations – 58% of projects were expansions of existing Florida businesses

Overall, Incentive Recipients Have Exceeded Job Creation and Capital Investment Requirements; Performance Varies by Program

- Projects created 40,274 new jobs and made $2 billion in capital investments
- Achievement of contractual job and investment requirements varied by program
  - Only QTI exceeded job creation requirements
  - Only the brownfield refund and CITC programs exceeded capital investment requirements
  - However, many projects are still "active," with additional time remaining to meet requirements according to contract terms and performance schedules

Some Incentive Programs Have Not Yet Achieved Other Legislative Goals

- In addition to supporting job creation and capital expenditures, some of the state's economic incentive programs have other legislative goals
  - Enterprise Zone Program – revitalize and rehabilitate distressed areas and enhance social well-being in the zones
  - Innovation Incentive Program – support projects that serve as catalysts for emerging or evolving technology clusters, including creating spin-off companies
- Neither incentive program has fully achieved these goals

DEO's Process for Administering and Monitoring Incentive Programs Could Be Improved

- Our review of DEO's administration of incentive programs yielded findings similar to those highlighted by recent internal and external reviews
  - Monitoring processes, policies, and procedures need improvement
  - Supporting documentation should be more consistent and more detailed
- To address these concerns, we made several suggestions for enhancing the process and increasing accountability
  - Improve the quality and consistency of information used to document incentive program performance
  - Establish monitoring and evaluation procedures for overseeing the work of the new third-party monitor

Questions?

The Programs Under Review Include Tax Credits, Tax Refunds and Grants

Program
Capital Investment Tax Credit Program – Attracts and grows capital-intensive industries by providing an annual credit against the corporate income tax that is available for up to 20 years in an amount equal to 5% of the eligible capital costs generated by a qualifying project.
Qualified Target Industry Tax Refund Program – Encourages the creation of high-skill jobs and the growth of corporate headquarters and other target industries by providing a tax refund of at least $3,000 per new job created in Florida through the expansion of existing Florida businesses or the location of new ones.
Brownfield Redevelopment Bonus Refund Program – Encourages development of abandoned, idled, or underused industrial and commercial sites by paying a bonus of $2,500 per job over and above the QTI refund; provides a $2,500 per job refund for non-QTI projects that meet job creation and capital investment requirements.
High Impact Performance Incentive Grant Program – Provides grants to pre-approved applicants in certain high-impact sectors; businesses receive 50% of the eligible grant upon commencement of operations and the other half once full employment and capital investment goals are met.
Quick Action Closing Fund Program – Provides a discretionary grant to respond to unique requirements of wealth creating projects; funds may be utilized to overcome a distinct quantifiable disadvantage after other available resources have been exhausted.
Innovation Incentive Program – Targets funds to businesses that expand or locate in Florida, are likely to serve as catalysts for the growth of existing or emerging technology clusters, or significantly affect the regional economy in which they expand or locate.
Enterprise Zone Program – Encourages the revitalization of economically distressed areas in Florida by providing job and corporate income tax credits as well as sales tax refunds to businesses located in an enterprise zone.

Source: *Florida Statutes.*

THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

1-13-14
Meeting Date

Topic: Economic Incentives
Bill Number: ____ *(if applicable)*

Name: LARRY NOVEY
Amendment Barcode: ____ *(if applicable)*

Job Title: CHIEF LEGISLATIVE ANALYST

Address: 1038 HOLLAND DRIVE
Street
TALLAHASSEE FL 32301
City *State* *Zip*

Phone: 850-717-0500

E-mail: NOVEY.LARRY@OPPAGA.FL.GOV

Speaking: [ ] For [ ] Against [X] Information

Representing: OPPAGA

Appearing at request of Chair: [X] Yes [ ] No

Lobbyist registered with Legislature: [ ] Yes [X] No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

This form is part of the public record for this meeting.

S-001 (10/20/11)

OFFICE OF ECONOMIC
& DEMOGRAPHIC RESEARCH

Return-on-Investment for Select State Economic Development Incentive Programs

Capital Investment Tax Credit – Qualified Target Industry Tax Refund – Brownfield Bonus Redevelopment Tax Refund – High-Impact Sector Performance Grant– Quick Action Closing Fund – Innovation Incentive Program – Enterprise Zone Program

1/1/2014

Table of Contents

EXECUTIVE SUMMARY AND COMPARATIVE ANALYSIS 1

OVERVIEW OF ECONOMIC DEVELOPMENT INCENTIVES AND ROI 6

INDUCING LOCATION DECISIONS BY BUSINESSES 13

DESCRIPTION OF THE DATA 18

METHODOLOGY 21

KEY ASSUMPTIONS 25

PROGRAM FINDINGS 27

- *CAPITAL INVESTMENT TAX CREDIT 29*
- *QUALIFIED TARGET INDUSTRY TAX REFUND 35*
- *BROWNFIELD REDEVELOPMENT BONUS TAX REFUND 42*
- *HIGH-IMPACT SECTOR PERFORMANCE GRANT 47*
- *QUICK ACTION CLOSING FUND 49*
- *INNOVATION INCENTIVE PROGRAM 54*
- *FLORIDA ENTERPRISE ZONE PROGRAM 58*

APPENDIX 1 – Assessing the "But For" Assertion, A Literature Review

APPENDIX 2 – DEO Legacy Model Methodology

APPENDIX 3 – State Enterprise Zone Programs

APPENDIX 4 – Florida's Enterprise Zones: Impact on Property Taxes

APPENDIX 5 -- References

EXECUTIVE SUMMARY AND COMPARATIVE ANALYSIS

Background and Purpose...

Recently enacted legislation directs the Office of Economic and Demographic Research (EDR) and the Office of Program Policy Analysis and Government Accountability (OPPAGA) to analyze and evaluate 18 state economic development incentive programs on a recurring three-year schedule.[1] EDR is required to evaluate the economic benefits of each program, using project data from the most recent three-year period, and to provide an explanation of the model used in its analysis and the model's key assumptions. Economic Benefit is defined as "the direct, indirect, and induced gains in state revenues as a percentage of the state's investment" – which includes "state grants, tax exemptions, tax refunds, tax credits, and other state incentives."[2] EDR's evaluation also requires identification of jobs created, the increase or decrease in personal income, and the impact on state Gross Domestic Product (GDP) for each program.

The review period covers Fiscal Years 2009-10, 2010-11, and 2011-12. In the first report, the following programs are under review:

- Capital Investment Tax Credit - CITC;
- Qualified Target Industry Tax Refund - QTI;
- Brownfield Redevelopment Bonus Tax Refund - BFRD;
- High-Impact Sector Performance Grant - HIPI;
- Quick Action Closing Fund - QACF;
- Innovation Incentive Program - IIP; and
- Enterprise Zone Program - EZ.

With the exception of the Qualified Target Industry Tax Refund and the Quick Action Closing Fund, there were less than 10 projects per program during the review period. Measurements for programs with a significant number of projects are likely to be more reliable.

Explanation of Return-on-Investment...

In this report, the term Return-on-Investment (ROI) is synonymous with economic benefit, and is used in lieu of the statutory term. This measure does not address issues of overall effectiveness or societal benefit; instead, it focuses on tangible financial gains or losses to state revenues, and is ultimately conditioned by the state's tax policy.

The ROI is developed by summing state revenues generated by a program less state expenditures invested in the program, and dividing that calculation by the state's investment. It is most often used when a project is to be evaluated strictly on a monetary basis, and externalities and social costs and benefits—to the extent they exist—are excluded from the evaluation. The basic formula is:

$$\frac{(\text{Increase in State Revenue} - \text{State Investment})}{\text{State Investment}}$$

[1] Section 288.0001, F.S., as created by s. 1, ch. 2013-39, Laws of Florida & s. 1, ch. 2013-42, Laws of Florida.

[2] Section 288.005(1), F.S.

Since EDR's Statewide Model[3] is used to develop these computations and to model the induced and indirect effects, EDR is able to simultaneously generate State Revenue and State Investment from the model so all feedback effects mirror reality. The result (a net number) is used in the final ROI calculation.

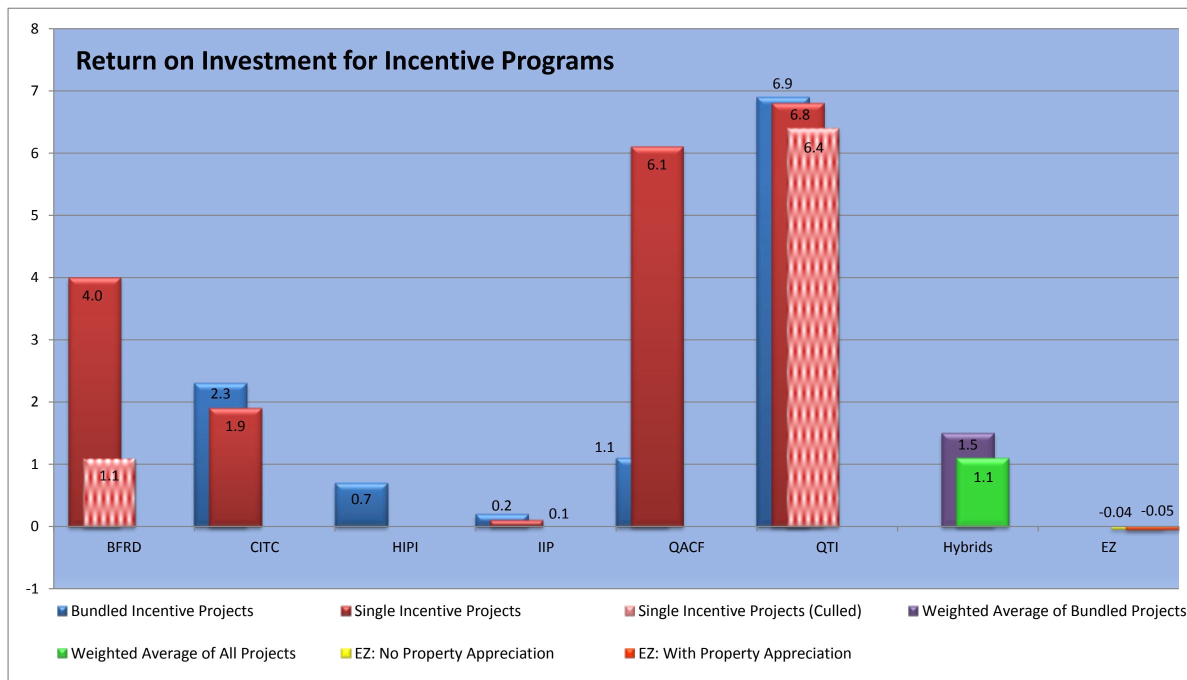
As used by EDR for this analysis, the returns can be categorized as follows:

- **Greater Than One (>1.0)**…the program more than breaks even; the return to the state produces more revenues than the total cost of the incentives.
- **Equal To One (=1.0)**…the program breaks even; the return to the state in additional revenues equals the total cost of the incentives.
- **Less Than One, But Positive (+, <1)**…the program does not break even; however, the state generates enough revenues to recover a portion of its cost for the incentives.
- **Less Than Zero (-, <0)**…the program does not recover any portion of the incentive cost, and state revenues are less than they would have been in the absence of the program because taxable activity is shifted to non-taxable activity.

The numerical ROI can be interpreted as return in tax revenues for each dollar spent by the state. For example, a ROI of 2.5 would mean that $2.50 in tax revenues is received back from each dollar spent by the state.

Overall Results and Conclusions...

This analysis develops a return-on-investment for each of the seven incentive programs under review and evaluates the key factors that affected their returns.



The seven programs are evaluated over 14 scenarios, which include projects that receive awards from only one program (single incentive) and projects that receive awards from multiple programs (bundled).

[3] See section on Methodology for more details.

For comparative purposes, the evaluation also develops two hybrid scenarios that combine all projects in the review (excluding the Enterprise Zone program) for a total of 16 scenarios. These hybrid measures serve as a benchmark for the individual programs. The table below shows the ranked program scenarios with corresponding ROIs in four general categories.

Return-on-Investment for the 3 year period

	Scenario	ROI
Greater Than One (>1.0)		
	QTI Bundled	6.9
	QTI Single	6.8
	QTI Single (Culled)	6.4
	QACF Single	6.1
	BFRD Single	4.0
	CITC Bundled	2.3
	CITC Single	1.9
Approximately Equal To One (=1.0)		
	Hybrid 1*	1.5
	Hybrid 2**	1.1
	QACF Bundled	1.1
	BFRD Sinlge (Culled)	1.1
Less Than One, But Positive (+, <1)		
	HIPI Bundled	0.7
	IIP Bundled	0.2
	IIP Single	0.1
Less Than Zero (-, <0)		
	EZ 1***	-0.04
	EZ 2****	-0.05

** Hybrid 1 is Weighted Average of Bundled Projects*
*** Hybrid 2 is Weighted Average of ALL Projects*
**** EZ 1 is No Property Appreciation*
***** EZ 2 is With Property Appreciation*

The programs in the Greater than One category have several common elements that lead to high ROIs:

- Capital Investment Requirements – One program feature for many of the programs in the first category is the requirement for capital investment, which usually takes the form of construction. The benefits of construction are typically localized. The work is labor intensive and the wages are spent locally which drives up indirect and induced effects. In addition, many of the materials used in construction projects are purchased locally and are generally taxable. Relative to other industries, there are few leakages to the rest of the world.

- High Wage Requirements – The top four scenarios share high wage requirements. In the Statewide Model high wages are linked to higher output and productivity which results in more household spending. This program feature is best exemplified in the QTI program scenarios and the QACF single-incentive project scenario. While the IIP and HIPI programs also have such requirements, the positive aspect of this feature is offset by other factors that adversely affect program ROI.

- Large Industry Multipliers – Industries with high multipliers typically have strong backward linkages to local suppliers. They also have high employment multipliers. Both of these factors result in greater indirect and induced benefits. Relative to other industries, there are few leakages to the rest of the world. Examples are found by looking at multipliers in manufacturing industries.

- Non-Economic Forces Affecting Costs and Benefits – In some scenarios awards are not fully being used – and in others, jobs, wages, and capital investments are being created in excess of the state's contracted levels. These circumstances artificially increase the ROI for the programs by reducing the state's cost or increasing the state's benefit. However, if businesses were able to receive the incentives' face value or create only the minimum jobs required, the ROIs would be reduced.

The remaining programs may have one or more of the elements identified above, but the positive impact of these features is offset by other factors that adversely affect the program's ROI. These factors are far-ranging. For some programs, the ROI may not be the principal purpose of the program or even a secondary goal. This applies to the Brownfield Redevelopment Bonus Tax Refund, Innovation Incentive, and Enterprise Zone programs.

Other factors have to do with the timing of the review period. While there was significant capital investment within the three-year window, there were additional investments that took place prior to the review period. Had this activity taken place closer to the beginning of the review period, or during the period, the ROI would have been significantly larger for some programs. This is especially true for the Capital Investment Tax Credit.

Similarly, the Innovation Incentive Program comprises research and development projects that have 20-year break-even requirements. The evaluation measured the ROI at an early stage of the projects' life cycle. As projects mature, the ROI may improve.

Finally, some projects could have been undertaken in the absence of the incentives. Removing (culling) Florida market or resource dependent projects lowers program ROIs by retaining the cost of incentives while losing any economic benefits associated with the projects. This concept applies especially to the Enterprise Zone Program where the program purpose and design essentially produces no increase in state economic activity. The Enterprise Zone Program does not recover any portion of the incentive cost, and revenues are less than they would have been in the absence of the program because taxable activity is shifted to non-taxable activity – producing a negative ROI.

Ultimately, a program with a ROI above 1 has sufficient justification from a financial perspective to continue the investment in the program. In this regard, decision-makers have several options as to the appropriate evaluation standard to use: breaks even; equals or improves upon the result of Hybrid Scenario #1 (all bundled projects; ROI of 1.5); or, equals or improves upon the result of Hybrid Scenario #2 (all projects; ROI of 1.1). Only policy considerations such as societal benefit or another economic measure would justify the continuance of programs that fail to break even or go negative.

In this regard, the table on the following page shows the three required economic indicators by rank, in addition to the ROI. They have been adjusted to reflect averages per year per investment dollar. The results are similar to the ROI rankings with the QTI scenarios being at the top for most measures. The

Brownfield single incentive scenario provides the best value for jobs per state dollar invested; however, the jobs are low wage.

Scenarios Ranked by ROI and Economic Indicators*

Scenario	ROI	Personal Income	GDP	Overall Employment
	for 3 year period	*average per year per investment $*		
QTI Bundled	**1**	3	3	2
QTI Single	2	**1**	**1**	4
QTI Single (Culled)	3	2	2	5
QACF Single	4	4	4	3
BFRD Single	5	5	5	**1**
CITC Bundled	6	8	7	8
CITC Single	7	9	9	7
QACF Bundled	8	6	6	6
BFRD Single (Culled)	9	7	8	9
HIPI Bundled	10	10	10	10
IIP Bundled	11	11	11	11
IIP Single	12	12	12	12
EZ 1	13	13	14	14
EZ 2	14	14	13	13

*Scenarios are ranked from 1 to 14, with 1 being the highest. Personal Income, GDP, and Employment rankings are based on calculations of the state's average investment per year compared to the average economic impact in order to account for program size.

OVERVIEW OF ECONOMIC DEVELOPMENT INCENTIVES AND ROI

The basic formula for return-on-investment is always calculated in the same manner, but the inputs used in the calculation can differ depending on the needs of the investor. Florida law requires the return to be measured from the state's perspective as the investor, in the form of state tax revenues. In this regard, the ROI is ultimately shaped by the state's tax code. For example, all other factors being equal, if Florida had a personal income tax the ROI for each incentive program would increase from the additional tax revenues.

All of the issues below shape EDR's calculation of ROI. Some of them are further addressed in the assumptions, methodology, and findings.

Role of Incentives...

Generally, the goal of economic development by local, state, or national government is to expand economic activity, primarily through capital investment and the creation of new job opportunities – preferably at competitive-to-above-average wages, thereby increasing the state's standard of living for its residents. This new economic activity creates new wealth, which when spent in the economy, induces the creation of additional jobs. To the extent this economic goal is achieved, the tax base is expanded and governments realize an increase in tax revenues.[4]

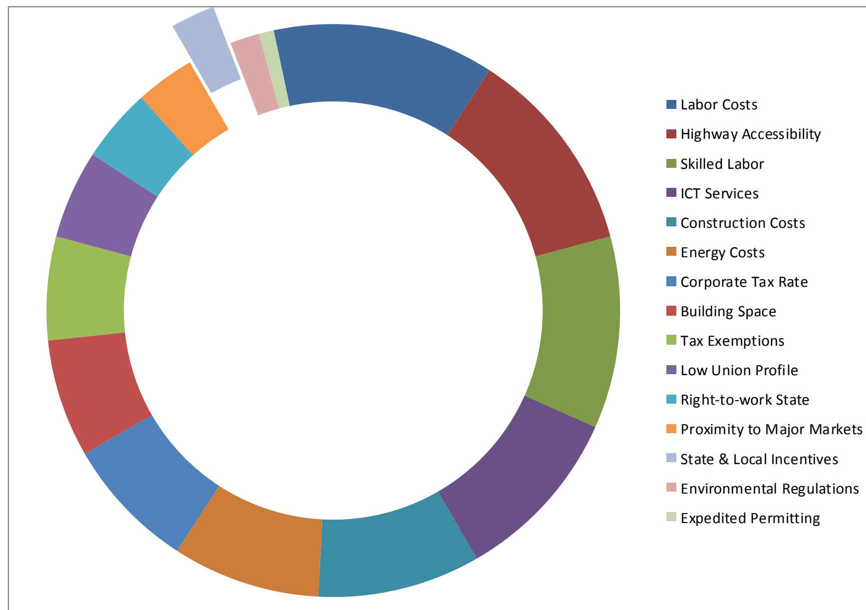
Intuitively, it is easy to see why local governments invest in economic incentives to individual businesses. Any action that benefits or increases the standard of living within a local jurisdiction – even if it causes harm to its neighbors – would be reasonable. It is much harder to accomplish this type of economic development (as opposed to generic investments in public infrastructure and Florida's overall business climate) at the state level where government should be neutral between competing in-state areas and has to take both winners and losers into account. In effect, the state becomes a single economic region, and the focus is generally on attracting new business to the state.

From the business perspective, incentives are public resources that reduce capital or operating costs. From an economic development organization's (EDO) perspective, incentives help sites overcome deficiencies or mitigate weaknesses relative to other sites. This perspective is shared by the heads of Florida's economic development agencies, who add that unlike other static site selection factors, an incentive can be adjusted to close the gap for individual projects, making Florida the highest ranked location choice when all positive and negative factors are considered.[5] Effectively, the incentive(s) is used to compensate the business for deficiencies in the other factors. The chart on the following page is used to illustrate this point, using factors identified in the most recent Area Development survey shown in the table on page 13.

[4] There may also be complementary policy goals to address poverty or economic self-sufficiency for disadvantaged persons or to promote environmental objectives; however, these goals would not be fully captured by the return-on-investment measure. To the extent they exist, that information would be addressed by OPPAGA's portion of the analysis.

[5] Gray Swoope, August 19, 2013, at an Economic Roundtable held by EDR.

Factors Affecting Business Location Decisions



Classification of Incentives...

Economic development incentives may be provided by any level of government. The various forms an incentive can take are wide-ranging, including everything from grants, loans, and tax relief, to regulatory breaks and technical assistance. There are a number of ways these incentives may be classified. For the purposes of this analysis, state incentives are classified into three general categories:[6]

- Direct Financial Incentives, such as grants;
- Tax-Based Incentives, which include credits and exemptions; and
- Indirect Incentives provided through intermediaries, which include public-private partnerships.

Direct financial incentives provide monetary assistance to businesses from the state or through a state-funded organization. The assistance is provided through grants, loans, equity investments, loan insurance, and guarantees. These awards usually give flexibility to the recipient regarding the specific use of the grant within the scope of its business operations, but they can also be targeted to areas such as workforce training, market development, modernization, and technology commercialization activities.

Tax-based incentives use the state's tax code as the source of direct or indirect subsidy to qualified businesses. They tend to have greater life spans and be less visible than direct financial or indirect incentives because they do not require an annual appropriation. While tax-based incentives generally function like direct financial incentives, from the business operating perspective, they have more

[6] This classification system is adapted from Kenneth Poole, George A Erikcek, Donald Iannone, Nancy McCrea, and Pofen Salem. *Evaluating Business Development Incentives,* a report prepared for the U.S. Department of Commerce, Economic Development Administration, EDA Project #99-07-13794, by the National Association of State Development Agencies, W.E. Upjohn Institute for Employment Research, and The Urban Center, Cleveland State University. (August, 1999): 10-13. The description of some of the terms in the classification system is adapted virtually verbatim, adjusted to clarify the Florida context.

uncertainty because they are typically subject to having sufficient tax liability or taxable activity to take full advantage of the incentive.[7] The recipient may also experience timing delays related to tax filing deadlines. Tax-based incentives can be further classified into three sub-categories:

- Credits, which provide a reduction in taxes due, after verification that statutory or contractual terms have been met;
- Refunds of taxes paid to the relevant government, after verification that statutory or contractual terms have been met; and
- Exemptions, which provide freedom from payment of taxes normally applied to certain business activities.

For purposes of this report, the statutory definition of economic benefit[8] leads EDR to focus on direct financial incentives and tax-based incentives.

The state offers many incentive programs; however, only seven programs are under review at this time. They are classified as follows:

- Direct Financial Incentive Programs:[9]
    - Qualified Target Industry Tax Refund
    - Brownfield Redevelopment Bonus Tax Refund
    - High-Impact Sector Performance Grants
    - Quick Action Closing Fund
    - Innovation Incentive Program

- Tax-based Incentive Programs:
    - Capital Investment Tax Credit
    - Enterprise Zone Program

Federal and Local Incentives...

Projects funded by state incentives may also receive federal and local incentives. For the purposes of this analysis, EDR focuses on state incentives consistent with available data and the statutory definition of economic benefit.

Federal incentives are available in the form of grants, exemptions, and tax credits. Known federal incentives received by projects under review include the Work Opportunity Tax Credit, the Brownfields Economic Development Initiative, Empowerment Zone Credits, and the Small Business Innovation Research Grant.

---

[7] Virginia Joint Legislative Audit Review Commission, *Review of State Economic Development Incentive Grants*, Senate Document No. 8 (November 2012):31. The report supports EDR's assertion by stating that "…In the case of tax credits, businesses cannot always claim the tax incentive in its entirety, often have to wait until the end of the following tax year to reap the benefits, and sometimes have to claim the incentive over multiple tax years."

[8] Section 288.005(1), F.S.

[9] The Qualified Target Industry Tax Refund and the Brownfield Redevelopment Bonus Tax Refund programs are not classified as "Tax-Based Incentives" because they are grant programs subject to annual appropriation. The amount of the award is limited to the number of qualifying employees and certain taxes paid (whether state or local), and this award is incorrectly referred to as a tax refund.

On the local level, a wide array of tax incentives are available such as grants, ad valorem tax abatements, free land, reduced rent on government owned facilities, or required local matches for state incentives. The majority of counties in the state have funds devoted to economic development projects as indicated in the annual Economic Development Incentives Report compiled and published by EDR. In local Fiscal Years 2010 through 2012, 43 (of 67) Florida counties and 49 (of 411) Florida municipalities reported awarding $268 million in economic development incentives to more than 1,800 businesses.

In OPPAGA's survey of businesses that received state incentives during the review period, they asked respondents to identify the local or federal incentives they received in conjunction with the state's project award. Of the 54 businesses that responded to the survey, four companies received both local and federal incentives, 17 companies stated they received local incentives, and five responded they received incentives from federal agencies. Other than these results, which are merely suggestive, EDR does not know the extent to which local and federal incentives are combined with the projects under this review.

From the business perspective, it may be that this total combination of incentives is necessary to be determinative to its decision regarding expansion, retention, or relocation.[10] In this case, excluding the local and federal incentives from the calculation likely overstates the ROI, jobs created, change in personal income, and change in state GDP attributed to the state incentive.

Florida Market and Resource Dependent Projects...

An additional issue that impacts the analysis of ROI relates to projects that are Florida market or state resource dependent. These are projects where the business' clients are primarily based in Florida or the business is dependent on Florida's resources to produce its products or services. While the projects may be technically qualified to receive an incentive from a program, there is no new state revenue resulting from those projects since the businesses are otherwise tied to Florida, meaning the state would have already been their location choice. In these cases, the ROI should not be attributed to the incentive.

In this regard, to the extent that incentives are for market or resource dependent businesses, there is "no net gain in economic activity or jobs or income."[11] The businesses cannot claim that "but for" the program benefit, they would not have undertaken the business activity. [See the broader discussion related to the "but for" issue in a subsequent section and **APPENDIX 1**.] As with the federal and local incentives discussed above, the program ROI would be overstated to the extent these projects are included.

Similarly, some companies are awarded incentives for multiple projects. In certain circumstances, this practice challenges the validity of the "but for" assertion. While it is possible that a subsequent stand-alone project could be located in another state if there is no direct interdependence with the rest of the business, it seems unlikely if there is established infrastructure in Florida. At the very least, any economies of scale would be foregone. The practice of awarding multiple project awards to the same company may also overstate reported ROIs.[12]

---

[10] While state and local incentives may prove determinative to a specific location decision, federal incentives will not as they are likely to be available in whatever state the business decides to locate.

[11] Peter S. Fisher, "Corporate Taxes and State Economic Growth, Policy Brief of the Iowa Fiscal Partnership," Revised February, 2012: 4.

[12] Within the universe of projects reviewed by EDR, 13 companies have received multiple project awards. Three of those companies received four project awards, five received three project awards, and five received two project awards.

Federal Tax Implications of State Incentives...

While the state cost equals the face value of the economic development incentive, the incentive's federal tax treatment diminishes its value to the recipient business since it will pay part of the incentive to the federal government in the form of increased taxes. This asymmetric valuation suppresses the ROI if it is fully taken into account by reducing the state benefit coming directly from the business. For example, if the tax leakage to the federal government were not present, the business would either have been able to hire more employees at the awarded incentive level or it would have hired the same number of employees at a reduced incentive level—assuming all else is equal.

The federal tax treatment of incentives depends upon whether the incentive is a grant—a payment by the government to the taxpayer, unrelated to taxes—or a tax incentive such as an exemption or credit. The general guidelines related to the tax treatment are described below.[13]

- GRANTS. If the payment is a grant, it generally is included within gross income and thereby taxable. Section 61, IRC, defines gross income to include all income, from whatever source derived. Case law clearly establishes that income includes "any accession to wealth." See *Commissioner v. Glenshaw Glass*, 348 U.S. 426 (1955).

- TAX INCENTIVES. If the incentive is a tax incentive, it is generally considered to not be included in gross income. Rather, it is deemed to be a reduction in taxes due. The most-cited case is *Snyder v. Commissioner*, 894 F.2d 1337 (6th Cir. 1990). Even though the incentive is not included in gross income, it will still affect the taxpayer's tax liability. In simple terms, a business' income tax liability is determined by adding up all of the business' income and deducting the business' normal expenses of doing business. Taxes that the business pays the state are deductible expenses. So, to the extent a business' state tax liabilities are decreased, its federal deductions will also decrease and its federal taxable income and tax will increase. This aspect is especially important when viewing the value of a state tax incentive.

Federal Tax Treatment of State Incentives
(assuming 35% federal tax rate)

Award Type	*Effect*	*Value to Taxpayer*
Cash Grant	Increases Federal Taxable Income	65% of face value
Tax Exemption	Increases Federal Taxable Income by Reducing Deduction	65% of face value
Tax Credit	Increases Federal Taxable Income by Reducing Deduction	65% of face value

State tax issues for incentives also exist; however, they would not represent a direct leakage from Florida's economy since the tax collections would be retained in-state. The ultimate impact on ROI would be case-specific.

Administrative Costs Associated with Incentives...

Administrative costs may also reduce the productive value of economic incentives. To the extent that businesses use site-selection companies or consultants to identify and obtain economic development incentives, the attendant administrative costs diminish the business's ability to deploy the dollars

[13] This information and the table immediately following were provided by staff from the Florida Senate Appropriations Subcommittee on Finance and Tax, 8/13/13. Information on file at EDR.

directly into employment or capital investment. In these cases, the value of state tax incentives to the economy will not equal the face value of the incentive. If taken into account, this would negatively impact the ROI.

In practice, these activities have proven to be fairly widespread. Gray Swoope, Secretary of Commerce for the State of Florida, estimates that 75–80 percent of the negotiations his organization has had with businesses seeking to expand in or relocate to Florida are done through site selection consultants.[14] A 2000 Florida Senate Committee on Commerce and Economic Opportunities Interim Project Report on the Enterprise Zone Program found:

> "Enterprise zone private consultants have increased the use of state funds, but the fees further reduce the size of the rebate, making it even less likely for the program to operate as a development incentive to modify business behavior."[15]

While the diminished value of the incentives would affect the ROI calculation, the service and expertise a consultant provides to the business likely has value to the business itself.

Treatment as a Subsidy...

Economic development is facilitated by investments in public infrastructure, expansion of certain public services, or through the provision of economic development incentives to the business sector. These incentives are public subsidies intended to induce an economic activity or capital investment by a private business in a jurisdiction in which such activity or investment would not otherwise take place. From an economic perspective, a subsidy is:

> ".. a grant of money made by government in aid of the promoters of any enterprise, work, or improvement in which the government desires to participate, or which is considered a proper subject for government aid, because such purpose is likely to be of benefit to the public."[16]

Generally, economic development subsidies are an investment of public resources (whether budgeted or from foregone revenue) with an anticipated ROI to the public treasury, as well as an indirect benefit to the general public. While subsidies still constitute a transfer of wealth from the class of general taxpayers to individual businesses, such transfers are intended to expand the state's economic infrastructure and wealth-creation capacity.

Even though subsidies can be used to accomplish specific policy goals, they cause market distortions which result in inefficiencies and inequalities in the marketplace. This outcome forces decision-makers to weigh the negative repercussions of incentives against the benefits associated with the underlying goal. It also makes periodic, in-depth evaluations critical to the use of incentives.

---

[14] Gray Swoope, August 19, 2013, at an Economic Roundtable held by EDR.
For additional discussion of the expanding role and influence of site selection consultants, see A. Markusen and K Nesse, "Institutional and political determinants of incentive competition" in *Reining In The Competition For Capital*, ed. A. Markusen (Kalamazoo, MI: W.E.Upjohn Institute for Employment Research, 2007): 1-41. *Also see* Michael Luger and Suho Bae, "Speaking Falsehood to Power: States' Misguided Use of "Cost-of-Doing Business" Studies in Economic Development Policy," *The Review of Regional Studies,* Vol. 36, No. 1, 2006.

[15] Florida Senate Committee on Commerce and Economic Opportunities, *Review and Evaluation of the Enterprise Zone Program*, November 2000, Interim Project Report 2001-029, 3. The term "enterprise zone consultant" is not synonymous with "enterprise zone coordinators," who are typically local government employees, most of whom have responsibilities beyond administering the local enterprise zone programs.

[16] Black's Law Dictionary, 5th Edition, 1999.

Economic literature is fairly uniform in its assessment of potential repercussions. First, to the extent that subsidies are influential or determinative in business decisions, they can:

- decrease risk in the marketplace, thereby distorting economic decision making by businesses;
- shift capital from more profitable uses in the private sector; and
- foster inefficient projects that may not survive absent the subsidy.

Second, regardless as to whether subsidies are influential or determinative in business decisions, they can:

- distort the marketplace by artificially lowering production costs;
- shift business costs from the private sector to the public sector, as economic incentives—like all government expenditures—are funded through taxes;
- create inequities among similar industries and firms within the state; and
- divert public resources from spending on other public goods and services, which may be more productive uses of the funds.

To the extent that market distortions exist, the ROI may be overstated.

INDUCING LOCATION DECISIONS BY BUSINESSES

The "But For" Assertion...

As the use of incentives has proliferated, the question of whether the activity would have otherwise taken place has dominated recent research. The answer has implications for addressing the return-on-investment of the awarding programs. While some critics question the effectiveness of these practices, proponents claim that "but for" the incentives, the expansion or relocation would not occur in their area – the incentive is the primary, or at least the determining factor, in business decisions.

Some states require incentive recipients to attest to this "but for" condition, or require the state agency awarding such incentives to determine that this condition has been met, before the award of incentives. These requirements are intended to "ensure that the program is acting as a true incentive for economic activity that would not have occurred and does not reward economic activity that would take place normally or without an incentive."[17]

Decision Factors...

There are many factors businesses consider when deciding where to expand or relocate their facilities. Robert M. Ady, former Executive Consultant for Deloitte & Touche/Fantus Consulting, divides these factors into three basic categories:

- Operating costs, which include such items as labor costs, utility costs, occupancy costs, tax costs, and transportation costs, in the case of manufacturing;
- Operating conditions, which include quality of the work force, dependability of utilities, attitude of local officials, and executive travel times; and
- Quality-of-life factors, which may include cultural activities, education capabilities, sporting opportunities, and housing availability and cost.[18]

Economic development incentives, the focus of EDR's evaluation, can offset initial investment and ongoing operating costs, as well as compensate for deficiencies in operating conditions and quality-of-life factors. However, definitively determining the decisive factor behind the business's final decision is difficult at best, and is generally elusive. The literature is filled with surveys and studies that have at least made the attempt.[19]

Founded in 1965, Area Development magazine publishes information on corporate site selection and relocation. Area Development's annual surveys of corporate executives provide an indication of the importance of tax policy and incentives in the site selection process. In this survey, corporate survey respondents consider and weigh the various site selection and quality-of-life factors, rating the factors as either *Very Important*, *Important*, *Minor Consideration*, or *Of No Importance*. The 2012 survey of over

[17] Vermont Economic Progress Council. *Vermont Employment Growth Incentive Authorization Criteria*, Version 4.2012. (Montpelier, Vermont: VEPC, 2012)

[18] Robert Ady, as presented in: Ronald C. Fisher, "The Effects of State and Local Public Services on Economic Development" *New England Economic Review* (March/April 1997): 78.

[19] Chris Lockie, "Economic Development Incentive Wars: What Influence do State and Local Economic Development Incentives have on the Location Decisions of Firms?" *Major Themes in Economics* (Spring 2002): 21-47.
John P. Blair and Robert Premus, "Major Factors in Industrial Location: A Review" *Economic Development Quarterly* 1 (February, 1987): 76.

200 respondents indicates production factors outweigh tax and incentive factors. As shown in the following table, the corporate income tax rate ranked 7th, tax exemptions ranked 9th, and state and local incentives ranked 13th in the latest survey. Surveys from previous years show consistent responses regarding production costs, with some variation regarding incentives. Since 1986, responses over five-year intervals indicate that on average, the corporate income tax rate ranked 5.7, tax exemptions ranked 7.0, and state and local incentives ranked 5.9.

Area Development Site Selection Surveys[20]

(1 = Highest Rank)

2012 RANK	**2012**	**2010**	**2005**	**2000**	**1995**	**1990**	**1986**
Labor costs	1	2	2	2	1	2	1
Highway accessibility	2	1	1	1	2	1	2
Availability of skilled labor	3	7	3	3	5	6	3
Availability of advanced ICT services	4	13	5	n/a	n/a	n/a	n/a
Occupancy or construction costs	5	4	7	6	3	4	n/a
Energy availability and costs	6	8	10	10	4	5	n/a
Corporate tax rate	**7**	**6**	**6**	**4**	n/a	n/a	n/a
Availability of buildings	8	9	n/a	n/a	n/a	n/a	n/a
Tax exemptions	**9**	**3**	**8**	**7**	**8**	**7**	**7**
Low union profile	10	10	13	9	11	11	6
Right-to-work state	11	15	-	15	13	-	n/a
Proximity to major markets	12	-	9	12	14	14	3
State and local incentives	**13**	**5**	**4**	**5**	**6**	**3**	**5**
Environmental regulations	14	11	15	8	7	9	n/a
Expedited or fast-track permitting	15	14	n/a	n/a	n/a	n/a	n/a

Source: Area Development Annual Surveys regarding site selection and relocation.
“n/a” denotes question not asked; “-“ denotes response not in the top 15.

Academic research on site selection supports Area Development’s findings. In 1988, a U.S. General Accounting Office (GAO) review of the literature finds employer surveys report that financial incentives are secondary factors in location decisions.[21] A more recent literature review echoes the GAO findings and characterizes tax policy as a desirable location factor rather than a must factor, reiterating that desirable factors become more relevant near the end of a site search.[22]

---

[20] For 2012 data, and an analysis of respondents by industry and position within the organization, see: http://www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2013/27th-Corporate-Executive-RE-survey-results-37376241.shtml# Accessed July, 2013.
For 1986 – 2010 data, see: 25th Annual Corporate Survey, p. 39.
http://www.areadevelopment.com/AnnualReports/jan2011/corporate-consultants-survey-site-selection2011-39290.shtml# Accessed July, 2013.

[21] U.S. General Accounting Office, “Enterprise Zones: Lessons from the Maryland Experience.” (Washington, DC: GAO, 1988): 43.

[22] Dave N. Norris and Elizabeth Mansager Higgins, “The Impact of Economic Development Incentive Programs: A Review of the Literature” *A Component of the Biennial Unified Economic Development Budget Report Provided to the Louisiana Department of Economic Development* (Louisiana Tech University, 2003): 17. A recent survey by OPPAGA suggests that incentives may have a greater influence than indicated in previous research, at least for businesses that received the state incentives under review in this report. See Florida Office of Program Policy Analysis and Government Accountability, “Florida Economic Development Program Evaluations – Year 1.” Concurrent OPPAGA Report, January 2014.

This point is illustrated by Ady in his outline of the site selection process.[23] Ady states that the selection process is one of elimination:

> "The site seeker starts with a universe of locations and systematically eliminates those with the greatest disadvantages and the fewest advantages for the project, until the single location with the most advantages and the fewest disadvantages emerges. It is this location that is selected for the new operation."

Ady notes that the focus during the initial screening is on:

> "…macro wage differentials, usually at the state level, transportation variations (in the case of manufacturing facilities), and key "fatal flaw" criteria as developed by the company/consultant; for example, right-to-work state, proximity to a university with an engineering school, port facilities, available buildings, and so on. Taxes will be brought into the analysis, but only on a comparative basis."

The second stage is community selection. Here, the focus is on projected operating costs, which are developed by estimating costs for taxes, labor, transportation, utilities, and occupancy. He notes that taxes rank well below the other operating costs, typically four to five percent of the weighted consideration.

At the final selection stage, the remaining sites are ranked, and the incentives offered for each site are evaluated and compared.

It is also at this stage that quality factors and availability of public services are considered. Ady notes that education is by far the most important quality factor, followed by highway adequacy, public safety, and infrastructure.[24]

Gray Swoope, Florida Secretary of Commerce and Enterprise Florida's President and CEO, states that for some projects, incentives compensate for site deficiencies relative to other locations. Unlike other static site selection factors, incentives can be adjusted to meet the needs of individual projects—those needs created by any perceived deficiencies relative to the next viable location.[25]

A site-selection consultant offers a similar perspective:

> "For site selectors, it is understood that incentives cannot make a bad location good. However, incentives can make a location more competitive and in the end distinguish one good location from another."[26]

---

[23] Robert M. Ady, as presented in: Ronald C. Fisher, "The Effects of State and Local Public Services on Economic Development" *New England Economic Review* (March/April 1997): 78.

[24] Ibid., at 77-82.

Also see John P. Blair and Robert Premus, "Major Factors in Industrial Location: A Review" *Economic Development Quarterly* 1, 1 (February, 1987): 72-85.

[25] Gray Swoope, August 19, 2013, Economic Roundtable held by EDR.

[26] Mark Sweeney, "The Challenge of Business Incentives for State Policymakers: A Practitioner's Perspective" *Spectrum: The Journal of State Government* (Winter 2004): 10.

In summary, survey research and professional opinions indicate that incentives are not likely to be a primary consideration in site selection. However, practitioners indicate it can be a disqualifying factor at the initial stage (a fatal flaw) and may be a deciding factor or *the* deciding factor at the final stage.

At either phase, the "but for" assertion could be claimed, but substantiating the assertion is problematic. Those awarding incentives generally rely on the direct and indirect beneficiaries (incentive recipients and the Economic Development Organizations marketing the incentives, respectively) to verify the claim, thereby validating the effectiveness of incentive programs in stimulating business expansion.

The "but for" assertion is less likely to be satisfied for those projects where the incentive is relatively insignificant in proportion to relocation, capital investment, production or operating costs, or where a project is otherwise dependent on in-state markets or resources. While relatively high awards may increase the likelihood of landing the project, it could adversely affect the state's ROI.

Lack of Consensus Regarding Influence of Economic Development Incentives...
Research on location decisions over the decades tends to track the evolution in public policy regarding incentives. Research up to the 1980s addressed tax policy – primarily the absence of taxation, reductions in tax rates, and the availability of tax exemptions. By the 1980s, states and local governments were offering more creative incentives: targeted packages combining tax abatements, exemptions, credits, and refunds, as well as cash grants and workforce training to businesses. Additionally, these incentives became more lucrative, which elevated their value to businesses and their profile with the public. The academic literature reflects this evolution and increased scrutiny, and increasingly the research uses the more inclusive term incentives to capture both tax policy and the appropriated, targeted offerings.

Comprehensive reviews of the literature identify the lack of final consensus on the degree of influence that incentives have on location decisions made by businesses.

Lockie finds that despite the attention to the influence of incentives by scholars and economic development professionals:

> "… the answer to the question of incentives remains elusive. The variation in types of studies devised to answer this question is a testament to the difficulties of measuring the true influence of economic development incentives on the location of firms. No clear consensus can be reached from these studies as to the true influence incentives have on firms' location decisions."[27]

Peters and Fisher echo this conclusion, finding that:

> "The upshot of all this is that on this most basic question of all – whether incentives induce significant new investment or jobs – we simply do not know the answer. Since these programs probably cost state and local governments about $40-$50 billion a year, one would expect some clear and undisputed evidence of their success. This is not the case. In fact, there are very good

---

[27] Chris Lockie, "Economic Development Incentive Wars: What Influence do State and Local Economic Development Incentives have on the Location Decisions of Firms?" *Major Themes in Economics* (Spring, 2002): 39.

> reasons – theoretical, empirical, and practical – to believe that economic development incentives have little or no impact on firm location and investment decisions."[28]

Daniel Gorin, Supervisory Policy Analyst, Division of Consumer and Community Affairs of the Federal Reserve, concludes that:

> "(a)lthough it is a fundamental question in incentives policy, researchers have had a very difficult time answering the but for question."[29]

These conclusions are consistent with findings by a National Conference of State Legislatures Task Force on Economic Incentives (1998), which note that:

> "…no one knows much about the effectiveness of economic incentive programs and as a result, legislators must rely on anecdotal evidence which cannot establish whether the economic activity would have occurred anyway."[30]

At this point, the research on the "but for" issue is inconclusive. The strongest supported assumption is that it is highly unlikely that all projects receiving incentives satisfy the "but for" condition. It is more likely that some projects do satisfy the condition and some do not—and perhaps only the incentive recipients know the category in which their respective project fits.

If incentives are the primary, or at least the determining factor, in all expansion or relocation projects, then this assumption validates a positive ROI calculation. However, if incentives are irrelevant in such decisions, then the ROI becomes negative or meaningless since the new economic activity would have happened absent the incentive. The cost of the incentive is a total loss.

To illustrate, Virginia's Joint Legislative Audit and Review Commission (JLARC) concludes the following in its review of Virginia's economic development incentive grants:

> "Understanding the extent to which incentive grants shape business decisions to locate or expand in Virginia is critical to evaluating whether they are effective at achieving their policy goals. If incentive grants do not sway a business' decision to locate or expand in Virginia, then the jobs created and economic gains stemming from that business' increased presence in Virginia cannot be attributed to the incentive grant, and instead the grant payments are only a cost to the State."[31]

This cost has two negative outcomes: an unnecessary shift of private business costs to the general class of taxpayers and a reduction in available funding for other public services, some which promote or are necessary for economic growth. To the extent these negative outcomes exist, the ROI is overstated.

For further discussion on other states' findings and a more complete literature review, see **APPENDIX 1**.

---

[28] Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives" *Journal of the American Planning Association*, Vol. 70, No. 1 (Winter 2004): 32.

[29] Dan Gorin, "Economic Development Incentives: Research Approaches and Current Views" *Federal Reserve Bulletin*, Vol 94 (2008): 9.

[30] Ronald K. Snell, "A Review of State Economic Development Policy," National Conference of State Legislatures (1998): 53- 4.

[31] Virginia Joint Legislative Audit and Review Commission, "Review of State Economic Development Incentive Grants" Senate Document No. 8 (November 2012): 25.

DESCRIPTION OF THE DATA

Data Source and Development of the Universe...

The law requires EDR and OPPAGA to analyze and evaluate the seven designated incentive programs' performance over the previous three years.[32] The report for the first three-year period is scheduled for release January 1, 2014, and includes Fiscal Years 2009-10, 2010-11, and 2011-12. These years were selected after discussions with the Department of Economic Opportunity (DEO) and Enterprise Florida, Inc. (EFI) indicating that the end of Fiscal Year 2011-12 is the last point in time for which complete payment information is available. In this regard, the affected agencies were instructed to provide EDR with information for each project which received state dollars (via grant, exemption, credit, or refund) during the three-year review period. Collectively, these projects comprise the universe. Awards or tax breaks during the period are reduced by any subsequent incentive repayments or amended tax returns for purposes of the analysis.

When available, submitted information includes the amount and timing of incentive(s) distributed to the business; the amount and timing of direct capital expenditures for the project; and the number of direct jobs and associated average wages. Only data related to the three-year review period is considered in the evaluation, with one exception; this is made to account for any remaining economic benefit that resulted from capital investments occurring prior to the review period. In this case, the remaining benefit is quantified and included in the ROI calculation.

DEO is the primary source of program project information, except for projects receiving Capital Investment Tax Credits or Enterprise Zone tax incentives. For those two programs, the primary source of information is internal files from the Department of Revenue (DOR). Supplemental information for the projects in the universe is also included from the General Appropriations Act, the Department of Transportation's Economic Development Transportation Fund (EDTF) files,[33] Workforce Florida, Inc.'s Quick Response Training Grant files,[34] and DOR's SUNTAX taxpayer records.[35]

DEO also provided information on escrow payments for projects participating in the Quick Action Closing Fund (QACF) program. Escrow payments are payments made to Enterprise Florida, Inc., on behalf of certain recipient projects. The payments are held in escrow until the project achieves a specified goal, pursuant to contract. In most instances the payment to escrow and the payment to the recipient occur in the same fiscal year. When they do not occur in the same year, the analysis includes the payment from the state to the escrow account in the fiscal year the payment is made and includes the benefit arising from the project in the fiscal year the payment is made from the escrow account to the recipient.

---

[32] Section 288.0001, F.S., as created by s. 1, ch. 2013-39, Laws of Florida and s. 1, ch. 2013-42, Laws of Florida.

[33] The Economic Development Transportation Fund (commonly referred to as the "Road Fund," s. 239.2821, F.S.) is an incentive tool designed to alleviate transportation problems that adversely impact a specific company's location or expansion decision. The award amount is based on the number of new and retained jobs and the eligible transportation project costs, up to $3 million. The award is made by the Department of Transportation to the local government on behalf of a specific business for public transportation improvements. The department did not identify any matches to the 192 projects included in the review.

[34] Administered by Workforce Florida, Inc. (WFI), the Quick Response Training Program (QRT, s. 288.047, F.S.) is a training program designed to assist new and expanding businesses. WFI identified seven awards to the 192 projects included in the review.

[35] After review, the data provided by DOR contained few tax refunds or credits that can be thought of as economic incentives, but which are different from those under review. While the businesses in the universe were also likely eligible for various sales tax exemptions that are available to any similarly situated entity, there is no data specific to tax payers for these exemptions.

Characteristics of the Universe...

The Enterprise Zone (EZ) program is unlike the other programs under review. Among the key differences: beneficiaries of EZ incentives are not regarded as projects in the traditional sense; the array of incentive types is broad; and the recipients are amorphous, including businesses and individuals, both identified and unidentified. For these reasons, EDR made the decision to exclude Enterprise Zone beneficiaries from the operable portion of the project universe and treat them separately. The discussion below conforms to that practice.

Among the non-EZ programs, a single project may be awarded more than one incentive if it meets eligibility criteria for more than one state program. For the purposes of this analysis, the practice of awarding more than one incentive to a single project is referred to as bundling. The net effect of bundling is to set the total public subsidy at a higher level than would otherwise be achieved through one program.

For the purpose of calculating a true ROI for each program, this distinction between the bundled and unbundled projects is important. From the combined DEO and DOR data, EDR categorized the projects as recipients of funds from a single program (single-incentive projects) or from multiple programs (bundled projects).

DEO provided data for 216 unique projects, 45 of which were bundled (20.8 percent). From this data, EDR identified 192 projects that had received payment from at least one incentive program in the analysis window. Of the 192 unique projects receiving payments, 39 were bundled (20.3 percent). The remaining 153 projects received payments from only one program. All totaled, these projects received $298 million over the review period.

Universe of Projects Receiving Payment by Program

Unduplicated Project Counts for Included Projects					
Single Incentive Projects		Bundled Projects		All Projects	
# of Projects	Total Expended	# of Projects	Total Expended	# of Projects	Total Expended
153	$ 252,089,845	39	$ 46,067,891	192	$ 298,157,736

When looking at the individual incentive programs, the bundled counts are higher. This is due to the fact that a project may have received a payment from one incentive program in the analysis window, but not its bundled counterpart. To illustrate this point, only eight of the bundled projects received a payment from more than one incentive program during the review period.

Universe of Projects Receiving Payment by Program

		Single Incentive Projects		Bundled Projects		All Projects	
	Program	# of Projects	Total Expended	# of Projects	Total Expended	# of Projects	Total Expended
Projects Included	BFR	9	$ 1,461,245	0	$ -	9	$ 1,461,245
	CITC	2	$ 22,746,623	3	$ 8,801,310	5	$ 31,547,933
	CLOSE	7	$ 11,649,760	21	$ 20,515,836	28	$ 32,165,596
	HIPI	0	$ -	2	$ 1,000,000	2	$ 1,000,000
	IIP	7	$ 192,993,853	1	$ 11,000,000	8	$ 203,993,853
	QTI	128	$ 23,238,364	20	$ 4,750,745	148	$ 27,989,109
Grand Total		**153**	**$ 252,089,845**	**47**	**$ 46,067,891**	**200**	**$ 298,157,736**

The state incentive payments for a bundled project are identified by program and limited to the review period. However, the benefits such as capital expenditures, jobs, and wages for a bundled project are attributable to all of the programs associated with the project regardless of when the state payments were made. In effect, each program is assumed to have contributed to the business's decision to locate or expand in Florida. The jobs and capital expenditures for a bundled project are apportioned across the programs based upon the percentages each program award represents of the total awards for the project. To be included in the universe, the project must have received state dollars from at least one of the programs during the review period. Other program funds not received during the period are only used to allocate the benefits.

Also used in the analysis was the classification of project types. Enterprise Florida, Inc., and DEO classify economic development projects into three categories – New, Expansion, and Retention & Expansion. New projects consist of businesses that are being recruited to locate in the state. Expansion projects are existing Florida firms that are expanding their footprint within the state. Retention & Expansion projects are businesses that are in jeopardy of leaving the state and jobs will be lost if the business does not remain. Of the 192 projects in the universe, 42 percent (81 of 192) are classified as New; 38 percent (73 of 192) are Expansions; and 20 percent (38 of 192) are Retention & Expansion projects.

METHODOLOGY

Broad Approach...

EDR used the Statewide Model to estimate the return-on-investment for the programs under review. The Statewide Model is a dynamic computable general equilibrium (CGE) model that simulates Florida's economy and government finances.[36] Among other things, it captures the indirect and induced economic activity resulting from the direct project effects. This is accomplished by using large amounts of data specific to the Florida economy and fiscal structure. Mathematical equations[37] are used to account for the relationships (linkages and interactions) between the various economic agents, as well as likely responses by businesses and households to changes in the economy.[38] The model also has the ability to estimate the impact of economic changes on state revenue collections and state expenditures in order to maintain a balanced budget by fiscal year.

When using the Statewide Model to evaluate economic programs, the model is shocked[39] using static analysis to develop the initial or direct effects attributable to the projects funded by the incentives. In this analysis, direct effects are essentially the changes experienced by the businesses receiving the incentives and the transfer of state dollars. For all programs other than the Enterprise Zone Program, the combined annual direct effects (shocks) took the form of:

- Removal of the incentive payments from the state budget, with a corresponding award to businesses as subsidies to production.
- Capital investments or residual capital benefits related to the project.[40]
- Increased outputs based on jobs and payroll.[41]

The model was then used to estimate the additional—indirect and induced—economic effects generated by the projects, as well as the supply-side responses to the new activity, where the supply-side responses are changes in investment and labor supply arising from the new activity. Indirect effects are the changes in employment, income, and output by local supplier industries that provide goods and

---

[36] The statewide economic model was developed using GEMPACK software with the assistance of the Centre of Policy Studies (CoPS) at Monash University (Melbourne, Australia).

[37] These equations represent the behavioral responses to economic stimuli – to changes in economic variables.

[38] The business reactions simulate the supply-side responses to the new activity (e.g., changes in investment and labor supply).

[39] In economics, a shock typically refers to an unexpected or unpredictable event that affects the economy, either positive or negative. In this regard, a shock refers to some action that affects the current equilibrium or baseline path of the economy. It can be something that affects demand, such as a shift in the export demand equation; or, it could be something that affects the price of a commodity or factor of production, such as a change in tax rates. In the current analyses, a shock is imposed to simulate the introduction of incentives into the economy.

[40] For capital investments made prior to the review period for projects in the universe, the capital expenditures made by each project before 2009 were entered into the Statewide Model by year. The amount of economic activity that was generated by these capital expenditures which continued into years 2009 through 2012 was then captured, and deemed to be residual capital benefits.

[41] Jobs are multiplied by the average wage for the project and by an "employer benefits contribution" multiplier to determine the total wage bill for each year. RIMS II multipliers are then used to estimate the annual output from the total wage bill. Most projects are only required to report jobs and wages when applying for an incentive payment. Therefore, some projects have years with zero jobs reported. To account for this inconsistency in reporting, EDR assumed that the projects maintain jobs and wages during the zero years at the same level as the latest year reported.

services to support the direct economic activity. Induced effects are the changes in spending by households whose income is affected by the direct and indirect activity.
All of these effects can be measured by changes (relative to the baseline) in the following outcomes:

- State government revenues and expenditures
- Jobs
- Personal income
- Florida Gross Domestic Product
- Gross output
- Household consumption
- Investment
- Population

EDR's calculation of the return-on-investment used the model's estimate of net state revenues and expenditures. Other required measures for this report include the number of jobs created, the increase or decrease in personal income, and the impact on gross state product, all of which are included in the model results.

Measurement Scenarios...
The Statewide Model was used to measure the return-on-investment for three basic scenarios, not all of which were applicable to each program:

- In the first scenario, bundled-program projects were identified and the economic activity attributable to these projects was input into the model, with the economic benefits allocated to each program.

- In the second scenario, single-incentive projects were identified and the economic activity attributable to these projects was input into the model.

- In the third scenario, a supplemental measure of ROI – single-incentive projects (culled) – was used that did not include projects that were clearly determined to be Florida market or resource dependent. While the removed projects may be qualified to receive an incentive, this scenario assumes that no state revenue results from such projects although state costs remain. Note that this scenario was also used for the ROIs developed for the Enterprise Zone program.

In addition, two broad scenarios were developed for comparative purposes:

- Similar to the first scenario described above, the first hybrid scenario combined all bundled projects, but treated them as one program rather than distinguishing between specific programs. A single ROI was calculated for this hybrid program.

- The second hybrid scenario is similar to the first, except that it included all single-program projects in addition to the bundled projects.

Special Treatment of Enterprise Zones...
Unlike the other incentive programs, the Enterprise Zone program did not have the necessary inputs to run the Statewide Model as described above. Instead, two different scenarios were used in the

Statewide Model to develop the Enterprise Zone ROI. The first scenario attributed no direct economic effects to any Enterprise Zone incentives because it is assumed that the incentives do not induce businesses to locate in Florida. Only the production subsidy given to the businesses and the state costs remained in the model.

In the second scenario, the Statewide Model was shocked with additional local government spending attributed to property appreciation within the Enterprise Zones. This possibility was developed by using the results contained in the 2013 EDR study entitled "Florida's Enterprise Zones: Impact on Property Taxes" attached as **APPENDIX 4.** A corresponding rise in property taxes for businesses and homeowners, the production subsidy, and the change in state costs were input into the Statewide Model. The Statewide Model calculated the indirect and induced impacts from these inputs.

Other Tax Credits…
In the analysis, other tax credits (unrelated to the program incentives) claimed by new businesses were added to the project's total state incentive amount. EDR treated the tax credits as economic incentives that were a contributing factor to a business's final decision to relocate to Florida. These tax credits received a proportionate share of the output associated with the project. This lowered the amount of output attributed to the programs being reviewed in the study.

This treatment was applied only to projects classified as New by DEO where there were direct matches to businesses in the universe. It was assumed that existing businesses were already aware of other available tax credits, and they were not a contributing factor to their decisions.

Treatment of Statutorily Required Local Matches …
Required local matching funds for state incentive programs were excluded from the state payments used in the Statewide Model. In the analysis, jobs were allocated as a share of total payments which were then used to derive output. Since local matching funds were included in total payments but excluded from state payments, jobs that would have been attributable to these dollars and thus the corresponding output have been excluded from the model.

Comparison to DEO's Project Model…
For the purpose of this analysis, the Statewide Model used actual and historical data based on real outcomes. The DEO project model analyzes the prospective benefit of individual projects seeking state incentives. Although it has been roughly calibrated to produce results similar to the Statewide Model, the DEO project model assumes that all projects will be fully successful and receive the maximum value of the incentive.

Data has shown that projects generally do not materialize as anticipated. As such, businesses that fail to perform and do not create jobs are never captured in the EDR's analysis since these businesses did not receive payment in the analysis window. Similarly, the Statewide Model recognizes that businesses that perform below the contractual requirements receive reduced payments. Further affecting the ROI calculation, the analysis accounts for additional jobs created and capital investment by businesses above contracted levels. These effects makes EDR's program ROIs slightly higher than those found by DEO's project model for individual projects.

Required local matching funds for state incentive programs are excluded from DEO's project model, but all jobs created are attributed to the state dollars invested in the project. This serves to overstate the ROI for the project produced by DEO.

Conversely, any capital investment made by the single QTI projects is not captured by the Statewide Model since it is not a requirement of the program and not collected by DEO; however, the DEO project model includes these expenditures. Therefore, the Statewide Model understates the ROI of the program in those instances where businesses have capital expenditures.

All of the above features make the results from the two models not directly comparable. For an overview of DEO's model, see **APPENDIX 2**.[42]

[42] For an overview of other analytical approaches and tools (RIMS II, REMI and IMPLAN) available to assess the costs and benefits of development projects, see: Jonathan Q. Morgan, "Analyzing the Benefits and Costs of Economic Development Projects," *Community and Economic Development Bulletin*, *UNC School of Government* No. 7 (April 2010); and Kenneth Poole, George A Erikcek, Donald Iannone, Nancy McCrea, and Pofen Salem, *Evaluating Business Development Incentives*. A report prepared for the U.S. Department of Commerce, Economic Development Administration, EDA Project #99-07-13794, by the National Association of State Development Agencies, W.E. Upjohn Institute for Employment Research, and The Urban Center, Cleveland State University. (August, 1999): 10-13.

KEY ASSUMPTIONS

The following key assumptions are used in the Statewide Model to determine the outcomes of the programs under review. Some of the assumptions are used to resolve ambiguities in the literature, while others conform to the protocols and procedures adopted for the Statewide Model.

1. The analysis assumes that state incentives were the determining factor in business retention, expansion, or location decisions, provided the program was created and designed to attract new business activity to the state. The analysis further assumes that for bundled projects, the total value of the incentive package was the deciding factor for the business, not the individual components of the package. This assumption was relaxed in certain scenarios.

2. The analysis assumes that the influence of any federal incentives awarded to state-funded projects is immaterial to the size and location of the project. This is also true for local incentives; however, this assumption was relaxed for required local matches.

3. The analysis assumes all data provided by DEO, DOR, and other state entities related to projects and tax incentives was complete and accurate. The data was not independently audited or verified by EDR; however, data discrepancies between agencies were addressed.

4. The analysis assumes businesses received the full value of the state incentives and that related costs due to federal taxes or consultant fees are immaterial to the decision making process.

5. The analysis assumes that given the time span under review, applying discount rates would not prove material to the outcome.

6. The analysis assumes that any expenditure made for incentives is a redirection from the general market basket of goods and services purchased by the state. Similarly, any revenue gains from increased business activities are fully spent by the state.

7. The analysis assumes the relevant geographic region is the whole state, not individual counties or regions. The Statewide Model does not recognize that any economic benefit arises from intrastate relocation. However, the model accounts and makes adjustments for the fact that industries within the state cannot supply all of the goods, services, capital, and labor needed to produce the state's output.

8. The analysis assumes that businesses treated the incentives as subsidies. The subsidies lowered the cost of production for each individual firm.

9. The analysis assumes distribution of capital purchases by each business was the same as the industry in which it operates. This assumption was made because data was not available regarding the specific capital purchases associated with each project. It is also assumed that the businesses within a program were not large enough to affect the rate of return on capital within the industries in which the businesses operated.

10. The analysis assumes that the output from projects did not displace the market for goods and services of existing Florida businesses. To do this, output associated with the businesses was assumed to be exported to the rest of the world. The rest of the world is defined as other states or the international market.

11. The analysis assumes that businesses are indifferent between tax credits and cash awards and will not change their behavior based on the type of incentive award given.

PROGRAM FINDINGS

In the pages that follow, each incentive program is preceded by diagnostic tables describing the composition and statistics of the projects under review by scenario. Key terms used in the tables are described below:

Anticipated State Payments in Window – Represents the amount of state liability Florida was expected to incur for the projects in the scenario by fiscal year, based on the anticipated activity.

Actual State Payments Used in Analysis – Represents the amount of state payments made to projects in the scenario from an incentive program by fiscal year.

Confirmed Capital Investment – Represents the amount of capital investments confirmed by DEO for projects in the scenario in a given fiscal year.

Anticipated New Jobs by Year – Represents the number of incremental new jobs the state was projected to receive by fiscal year as a result of the incentive payments for projects in the scenario.

Actual Jobs Used in Analysis by Year – Represents the number of incremental new jobs that were allocated to projects as a result of incentive payments received from the state by fiscal year for projects in the scenario.

Average Annual Wage of Projects – Represents the average annual wage of all projects used in the scenario by fiscal year.

Statewide Average Annual Wage – This is the statewide private sector average annual wage by calendar year as reported by the Department of Economic Opportunity's Labor Market Information data.

Percentage of Statewide Average Annual Wage – Represents the average annual wage of projects in the scenario as a percentage of the statewide average annual wage for a given fiscal year.

Actual State Payments Used in the Analysis of QACF Excluding Escrow – The amount of state payments for the QACF incentive program paid to businesses by fiscal year. These payments exclude funds that were made on behalf of projects to the escrow account managed by Enterprise Florida, Inc.

State Payments for QACF Paid to Escrow – The amount of state payments made to the escrow account managed by Enterprise Florida, Inc.

QACF Returned to the State in the Window – The amount of repayments made by QACF projects to the state.

Personal Income (Nominal $(M)) – Income received by persons from all sources. It includes income received from participation in production as well as from government and business transfer payments. It is the sum of compensation of employees (received), supplements to wages and salaries, proprietors'

income with inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj), rental income of persons with CCAdj, personal income receipts on assets, and personal current transfer receipts, less contributions for government social insurance.

Real Disposable Personal Income (Fixed 2009 $(M)) – Total after-tax income received by persons; it is the income available to persons for spending or saving.

Real Gross Domestic Product (Fixed 2009 $(M)) – A measurement of the state's output; it is the sum of value added from all industries in the state. GDP by state is the state counterpart to the Nation's gross domestic product.

Consumption by Households and Government (Fixed 2009 $(M)) –The goods and services purchased by persons plus expenditures by governments consisting of compensation of general government employees, consumption of fixed capital (CFC), and intermediate purchases of goods and services less sales to other sectors and own-account production of structures and software. It excludes current transactions of government enterprises, interest paid or received by government, and subsidies.

Real Output (Fixed 2009 $(M)) – Consists of sales, or receipts, and other operating income, plus commodity taxes and changes in inventories.

Total Employment (Jobs) – This comprises estimates of the number of jobs, full time plus part time, by place of work. Full time and part time jobs are counted at equal weight. Employees, sole proprietors, and active partners are included, but unpaid family workers and volunteers are not included.

Population (Persons) – Reflects first of year estimates of people, includes survivors from the previous year, births, special populations, and three types of migrants (economic, international, and retired).

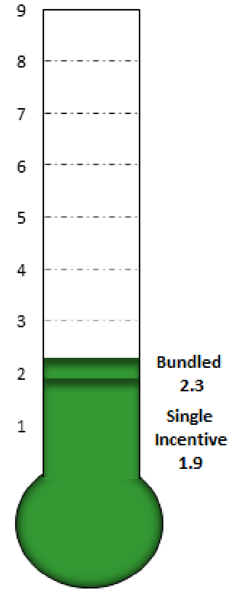
CAPITAL INVESTMENT TAX CREDIT

Project Summary Statistics

Total Number of CITC Projects	**5**	**100.0%**
Industry Compostion		
Manufacturing 31-33	1	20.0%
Information 51	1	20.0%
Finance and Insurance 52	2	40.0%
Management of Companies and Enterprises 55	1	20.0%

Bundled Project Summary Statistics

Number of Bundled CITC Projects	**3**	**60.0%**
Bundled Compostion		
QTI, CITC	2	66.7%
QTI, CITC, QACF	1	33.3%
Industry Composition		
Manufacturing 31-33	1	33.3%
Finance and Insurance 52	2	66.7%



Bundled CITC Projects

	2009-10	2010-11	2011-12	Total
Anticipated CIT Credits in Window*	$ 9,114,985	$ 9,114,985	$ 9,114,985	**$ 27,344,955**
Actual CIT Credits used in analysis	$ 4,074,560	$ 4,107,253	$ 619,497	**$ 8,801,310**
Confirmed Capital Investment	$ 18,114,603	$ 26,414,969	$ -	**$ 44,529,572**
Anticipated New Jobs by year	5	-	-	**5**
Actual Jobs used in analysis by year	187	187	202	**576**
Average Annual Wage of Projects	$ 74,848	$ 69,241	$ 70,171	
Statewide Average Annual Wage	$ 42,312	$ 41,574	$ 40,991	
Percentage of Statewide Average Annual Wage	176.9%	166.5%	171.2%	
Total Net State Revenues	6.1	7.9	5.9	**19.9**
Return-on-Investment by year	1.5	1.9	9.8	
Return-on-Investment for the 3 year period				**2.3**

** Assumes business was able to take the full credit for which it was eligible based on capital investment.*

Statewide Economic Model Impact of the Bundled Capital Investment Tax Credit Program

		2009-10	2010-11	2011-12	Total		Average per Year
Personal Income	Nominal $ (M)	93.3	127.2	99.4	**319.9**		**106.6**
Real Disposable Personal Income	Fixed 2009 $ (M)	80.6	108.3	83.7	**272.6**		**90.9**
Real Gross Domestic Product	Fixed 2009 $ (M)	93.7	120.1	83.9	**297.7**		**99.2**
Consumption by Households and Government	Fixed 2009 $ (M)	81.8	109.1	82.7	**273.6**		**91.2**
Real Output	Fixed 2009 $ (M)	132.6	166.5	113.7	**412.8**		**137.6**
		2009-10	**2010-11**	**2011-12**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	400	416	174	***174***	416	**330**
Population	Persons	176	384	608	***176***	608	**389**

Single Incentive Project Summary Statistics

Number of Single CITC Projects	**2**	**40.0%**
Industry Composition		
Information 51	1	50.0%
Management of Companies and Enterprises 55	1	50.0%

Single Incentive Capital Investment Tax Credit Projects

	2009-10	**2010-11**	**2011-12**	**Total**
Anticipated CIT Credits in Window*	$ 58,906,381	$ 58,906,381	$ 58,906,381	**$ 176,719,143**
Actual CIT Credits Used in Analysis	$ -	$ 10,343,387	$ 12,403,236	**$ 22,746,623**
Confirmed Capital Investment	$ -	$ 150,127,620	$ -	**$ 150,127,620**
Anticipated New Jobs by Year	-	172	79	**251**
Actual Jobs Used in Analysis by Year	180	180	180	**540**
Average Annual Wage of Projects	$ 78,265	$ 78,400	$ 95,756	
Statewide Average Annual Wage	$ 42,312	$ 41,574	$ 40,991	
Percentage of Statewide Average Annual Wage	185.0%	188.6%	233.6%	
Total Net State Revenues $ (M)	9.1	18.8	16.4	**44.3**
Return on Investment by Year	-	1.8	1.3	
Return-on-Investment for the 3 Year Period				**1.9**

** Assumes business was able to take the full credit for which it was eligible based on capital investment.*

Statewide Economic Model Impact of the Capital Investment Tax Credit Program -- Single Incentive Projects

		2009-10	**2010-11**	**2011-12**	**Total**		**Average per Year**
Personal Income	Nominal $ (M)	150.8	253.2	201.2	**605.1**		**201.7**
Real Disposable Personal Income	Fixed 2009 $ (M)	131.4	216.3	169.8	**517.6**		**172.5**
Real Gross Domestic Product	Fixed 2009 $ (M)	150.7	241.9	168.9	**561.5**		**187.2**
Consumption by Households and Government	Fixed 2009 $ (M)	125.7	212.4	160.0	**498.1**		**166.0**
Real Output	Fixed 2009 $ (M)	212.2	323.4	222.6	**758.3**		**252.8**
		2009-10	**2010-11**	**2011-12**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	855	1,141	633	***633***	1,141	**876**
Population	Persons	821	1,074	1,522	***821***	1,522	**1,139**

Program Description…

Florida created the Capital Investment Tax Credit (CITC) in 1998 to encourage businesses in high-impact sectors to build or expand facilities within Florida. These sectors are designated by the DEO and currently are comprised of the following:

- Aviation/aerospace transportation equipment;
- Information technology;
- Life sciences;
- Financial services;
- Corporate headquarters; and
- Clean energy.

To participate in the program a business must meet several criteria:

- Be in a designated high-impact sector;
- Build or expand a facility within Florida;
- Incur construction or expansion costs of at least $25 million; and
- Create and maintain at least 100 new jobs within Florida.

A qualifying business receives authority to take annual credits for the 20-year period immediately following the date it commences operations at the new or expanded facility. The business can use the credits to reduce its corporate income or insurance premium tax liability.[43] However, the tax liability must arise out of the project. The CITC program is designed as a three-tier program with the level of eligible capital costs determining the tier that applies to a project and the maximum percentage of the project's tax liability that can be reduced by the credit in any year.

- Tier 1: $25 million (50 percent)
- Tier 2: $50 million (75 percent)
- Tier 3: $100 million (100 percent)

Analysis and Findings…

The benefits arising out of this program flow from two sources: the activity generated by the capital investment undertaken by the businesses, and the activity associated with the ongoing operations of the firm, but during and after the completion of the capital investment. The ability to measure these benefits is partially limited by the structure of the program. DEO is only required to certify the level of capital investment and new jobs created each year that the business requests a CITC credit. If the business has no liability against which to take a credit, there would be no certification of activity in the period and any benefits generated by that activity would be left out of the analysis. However, if credits were claimed in an earlier period, the analysis assumes that the earlier level of activity persists through future periods. These and other caveats to be made later should be taken into account when looking at the measured ROI figures for this program.

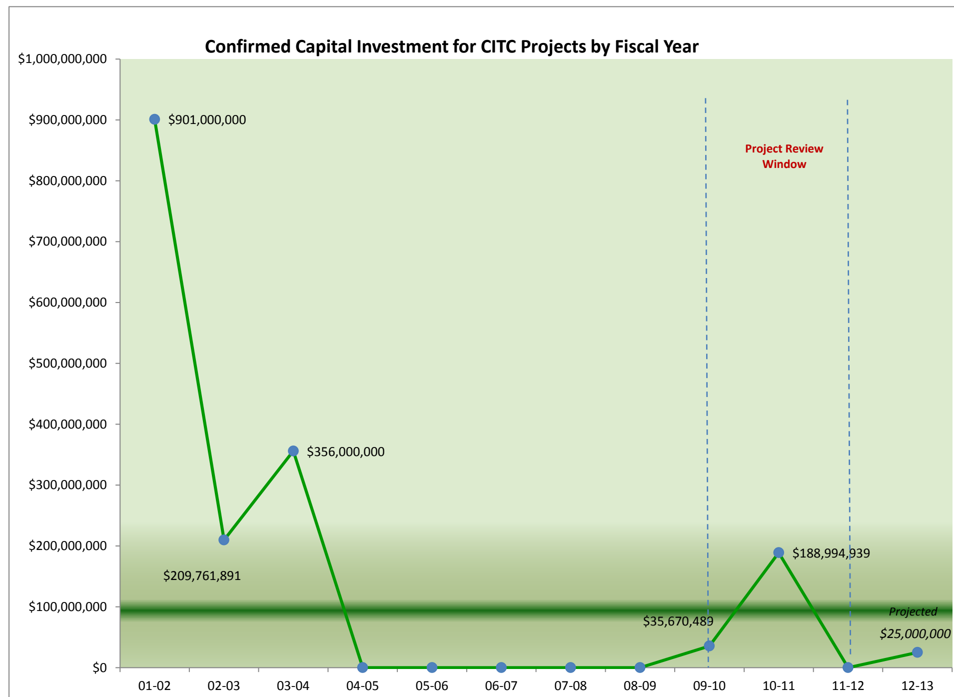
During the period of analysis, a total of five projects were evaluated for the CITC program. Of these five projects, one was a manufacturing business, one was in information services (NAICS 51), two were in finance and insurance (NAICS 52), and one was classified as management of companies and enterprises

---

[43] For a more complete history of the program see The Florida Senate, "*Review of the Capital Investment Tax Credit*," Issue Brief 2012-204, September 2011.

(NAICS 55). Additionally, three of the five projects were bundled with other incentive awards. All three also received QTI incentives, and one of the three received an additional QACF incentive. Separate analyses were performed on the bundled and single incentive projects.

There was a total of $224.7 million in confirmed capital investment over the three-year period of analysis. Businesses claimed a total of $31.5 million in CITC credits. These projects are credited with creating 1,116 project jobs within the review period. For those businesses claiming credits, there was additional capital investment that took place prior to the period of analysis (see chart below).[44]



Bundled Projects Scenario…

For the three bundled projects there was $44.5 million in confirmed capital investment and a total of $8.8 million in CITC credits taken during the three-year period of analysis. There were an estimated 576 project jobs created over the period by the three projects. The average annual wage for the jobs created was $72,686, which was about 175 percent of the statewide average. The economic activity associated with the capital investment and jobs generated a net increase in state revenues of $19.9 million. This results in an ROI for these projects of 2.3.

In addition to the net new revenues to the state, Florida's economy also benefited. These projects generated an average of $91 million a year in inflation-adjusted disposable personal income and $99 million a year in real gross state product. On average there were 330 more jobs economy-wide each year. It should be pointed out that the 576 jobs created by the projects corresponds to an average cumulative jobs number of 379 per year—greater than the net economy-wide job increase of 330. This is because some jobs are lost in state government due to the cost of the tax credits and redirected state spending.

[44] For those projects that were bundled with other incentives, it was assumed that the other incentives were responsible for inducing a portion of the capital investment. So while $224.7 million in spending took place, only $204.1 million is assumed to have been induced by the CITC program.

There are a number of factors that could affect the ROI for similar projects. These could move the ROI in either direction. First, since these projects were bundled with other incentive programs it is assumed that some of the capital investment is attributable to these other incentives. While $75.5 million in capital investment took place, approximately $30 million is attributed to the other incentive programs with which the CITC projects were bundled. If all of the capital investment was credited to the CITC program the ROI would have been higher; however, there is no guarantee that the same level of investment, or even the projects themselves, would have taken place without the additional incentives.

Another consideration that affects the ROI is the timing of the capital investment and whether it occurred prior to or during the review period. For the projects in this analysis there was an additional $80.1 million in capital investment that took place seven years prior to the review period. While the state benefited from this activity in those earlier years, there were only residual benefits that accrued to the state within the review period. The primary benefit arising out of these projects is generated by the ongoing operations of the businesses. However, even here some of the activity generated by the ongoing operations is credited to the other incentive programs with which the projects were bundled. If all activity was attributed to the CITC program, the ROI would have been higher; however, as in the case of the level of investment, there is no guarantee that the same level of activity would have taken place without the additional incentives.

A factor that acts to boost the measured ROI is the level of credits taken. The level is limited by the tax liability arising out of the projects. For the projects in this scenario there were potentially $27.3 million in credits that could have been taken. The state benefits from the $18.5 million in potential credits not taken. Had these additional available credits been fully taken, it would have reduced the ROI to 0.7.

Single Incentive Projects Scenario…
There were two projects in this scenario—one in the Information Services sector and one in the Management of Companies & Enterprises sector. Confirmed capital investments of $150.1 million and a total of $22.7 million in CITC credits were taken during the review period. There were an estimated 540 jobs created over the period—an average of 180 jobs per year. The average annual wage for the jobs created was $84,260, which was about 202 percent of the statewide average. The activity associated with the capital investment and jobs generated a net increase in state revenues of $44.3 million. This results in an ROI for these projects of 1.9.

In addition to the net new revenues to the state, Florida's economy also benefited. These projects generated an average of $172.5 billion a year in inflation-adjusted disposable income and $187.2 billion a year in real gross state product. And, on average there were 876 more jobs each year.

As with the first scenario, there are a number of factors that affected the measured ROI for these two projects. First, while there was $150.1 million of capital investment within the three-year window, there was an additional one billion dollars of investment that took place six years prior to the window. Had this taken place closer to the beginning of the window, or within the window, the ROI would have been significantly larger.

As above, a factor that acts to boost the measured ROI is the level of credits taken. The level is limited by the tax liability arising out of the projects. For the projects in this scenario there were potentially $176.7 million in credits that could have been taken. The state benefits from the $154 million in potential credits not taken. Had these additional available credits been fully taken, it would have reduced the ROI to 0.25.

Conclusion…

The structure of the CITC program makes it unique among those programs analyzed in this report. Most important are the limitations on the annual credit authorizations. First, the credits must be taken over a 20-year period. This limits the maximum potential credit in any year to five percent of the qualifying expenditures.

There are, however, two other potential limiting factors. As mentioned above, the credit can only be used to offset tax liability arising out of the new or expanded facility.[45] Second, only a percentage of the liability can be offset (as determined by the tier the business falls under).

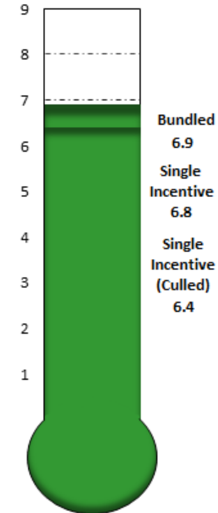
Since CITC's inception, 23 projects have applied and been approved as eligible CITC projects. Of the 23, 12 projects were expected to have been able to utilize the incentive within the review period based on potential job and capital investment milestones. In actuality, only five businesses have taken the credit during the period. Of the potential credits that could have been taken for these businesses in the period ($204,064,098) only $31,547,933 or 15 percent has been taken.

[45] What qualifies as liability arising from the new or expanding facility is subject to an agreement between the qualifying business and the Florida Department of Revenue.

QUALIFIED TARGET INDUSTRY TAX REFUND

Project Summary Statistics

Total Number of QTI Projects	**148**	**100.0%**
Industry Compostion		
Manufacturing 31-33	44	29.7%
Wholesale Trade 42	13	8.8%
Retail Trade 44-45	1	0.7%
Transportation and Warehousing 48-49	6	4.1%
Information 51	7	4.7%
Finance and Insurance 52	15	10.1%
Professional, Scientific, and Technical Services 54	19	12.8%
Management of Companies and Enterprises 55	29	19.6%
Administrative and Support Services 56	11	7.4%
Education Services 61	2	1.4%
Other Services (except Public Admin.)	1	0.7%



Bundled Project Summary Statistics

Number of Bundled QTI Projects	**20**	**13.5%**
Bundled Compostion		
QTI, CITC	3	15.0%
QTI, QACF	16	80.0%
QTI, CITC, QACF	1	5.0%
Industry Composition		
Manufacturing 31-33	4	20.0%
Wholesale Trade 42	1	5.0%
Information 51	1	5.0%
Finance and Insurance 52	5	25.0%
Professional, Scientific, and Technical Services 54	2	10.0%
Management of Companies and Enterprises 55	5	25.0%
Administrative and Support Services 56	2	10.0%

Bundled QTI Projects

	2009-10	2010-11	2011-12	Total
Anticipated State Payments in Window	$ 2,783,000	$ 2,927,200	$ 2,937,400	**$ 8,647,600**
Actual State Payments Used in Analysis	$ 2,073,595	$ 1,633,305	$ 1,043,845	**$ 4,750,745**
Anticipated New Jobs by Year	919	1,017	892	**2,828**
Actual Jobs Used in Analysis by Year	1,347	1,391	1,251	**3,989**
Average Annual Wage of Projects	$ 67,844	$ 60,511	$ 72,047	
Statewide Average Annual Wage	$ 42,312	$ 41,574	$ 40,991	
Percentage of Statewide Average Annual Wage	160.3%	145.6%	175.8%	
Total Net State Revenues $ (M)	9.2	13.6	10.2	**32.9**
Return-on-Investment by year	4.4	8.5	10.2	
Return-on-Investment for the 3 year period				**6.9**

Statewide Economic Model Impact of the Qualified Target Industry Tax Refund Program -- Bundled Projects

		2009-10	2010-11	2011-12	Total		Average per Year
Personal Income	Nominal $ (M)	312.4	467.1	387.2	**1,166.7**		**388.9**
Real Disposable Personal Income	Fixed 2009 $ (M)	266.7	393.6	323.1	**983.4**		**327.8**
Real Gross Domestic Product	Fixed 2009 $ (M)	315.5	443.7	324.5	**1,083.7**		**361.2**
Consumption by Households and Government	Fixed 2009 $ (M)	279.3	408.2	322.1	**1,009.6**		**336.5**
Real Output	Fixed 2009 $ (M)	433.3	593.4	423.7	**1,450.4**		**483.5**
		2009-10	**2010-11**	**2011-12**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	1,197	1,390	507	***507***	1,390	**1,031**
Population	Persons	288	1,072	2,032	***288***		**1,131**

Single Incentive Project Summary Statistics

Number of Single QTI Projects	**128**	**86.5%**
Industry Composition		
Manufacturing 31-33	40	31.3%
Wholesale Trade 42	12	9.4%
Retail Trade 44-45	1	0.8%
Transportation and Warehousing 48-49	6	4.7%
Information 51	6	4.7%
Finance and Insurance 52	10	7.8%
Professional, Scientific, and Technical Services 54	17	13.3%
Management of Companies and Enterprises 55	24	18.8%
Administrative and Support Services 56	9	7.0%
Education Services 61	2	1.6%
Other Services (except Public Admin.)	1	0.8%

Single Incentive QTI Projects

	2009-10	**2010-11**	**2011-12**	**Total**
Anticipated State Payments in Window	$ 10,285,600	$ 7,938,567	$ 5,672,133	**$ 23,896,300**
Actual State Payments Used in Analysis	$ 12,115,522	$ 6,998,743	$ 4,124,099	**$ 23,238,364**
Anticipated New Jobs by Year	3,173	2,681	2,169	**8,023**
Actual Jobs Used in Analysis by Year	9,638	9,845	9,549	**29,032**
Average Annual Wage of Projects	$ 63,511	$ 63,416	$ 63,412	
Statewide Average Annual Wage	$ 42,312	$ 41,574	$ 40,991	
Percentage of Statewide Average Annual Wage	150.1%	152.5%	154.7%	
Total Net State Revenues $ (M)	45.9	62.7	49.2	**157.8**
Return-on-Investment by year	3.8	9.0	12.0	
Return-on-Investment for the 3 year period				**6.8**

Statewide Economic Model Impact of the Qualified Target Industry Tax Refund Program -- Single Incentive Projects

		2009-10	**2010-11**	**2011-12**	**Total**		**Average per Year**
Personal Income	Nominal $ (M)	1,689.4	2,405.1	2,007.9	**6,102.4**		**2,034.1**
Real Disposable Personal Income	Fixed 2009 $ (M)	1,454.6	2,040.8	1,681.4	**5,176.7**		**1,725.6**
Real Gross Domestic Product	Fixed 2009 $ (M)	1,669.0	2,234.8	1,675.6	**5,579.3**		**1,859.8**
Consumption by Households and Government	Fixed 2009 $ (M)	1,447.2	2,017.3	1,631.9	**5,096.5**		**1,698.8**
Real Output	Fixed 2009 $ (M)	2,414.2	3,164.5	2,311.8	**7,890.6**		**2,630.2**
		2009-10	**2010-11**	**2011-12**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	4,816	4,584	761	***761***	4,816	**3,387**
Population	Persons	1,296	4,976	9,349	***1,296***		**5,207**

Single Incentive Project (Culled) Summary Statistics

Number of QTI Projects inlcuded in Culled Analysis	**122**	
Industry Composition		
Manufacturing 31-33	39	30.5%
Wholesale Trade 42	9	7.0%
Retail Trade 44-45	1	0.8%
Transportation and Warehousing 48-49	6	4.7%
Information 51	6	4.7%
Finance and Insurance 52	9	7.0%
Professional, Scientific, and Technical Services 54	17	13.3%
Management of Companies and Enterprises 55	23	18.0%
Administrative and Support Services 56	9	7.0%
Education Services 61	2	1.6%
Other Services (except Public Admin.)	1	0.8%
Number of QTI Projects removed from analysis	*6*	
Industry Compostion		
Manufacturing 31-33	*1*	*16.7%*
Wholesale Trade 42	*3*	*50.0%*
Finance and Insurance 52	*1*	*16.7%*
Management of Companies and Enterprises 55	*1*	*16.7%*

Single Incentive QTI Projects (Culled)

	2009-10	**2010-11**	**2011-12**	**Total**
Anticipated State Payments in Window	$ 10,285,600	$ 7,938,567	$ 5,672,133	**$ 23,896,300**
Actual State Payments Used in Analysis	$ 12,115,522	$ 6,998,743	$ 4,124,099	**$ 23,238,364**
Anticipated New Jobs by Year	3,073	2,681	2,169	**7,923**
Actual Jobs Used in Analysis by Year	9,354	9,561	9,265	**28,181**
Average Annual Wage of Projects	$ 64,182	$ 64,022	$ 64,017	
Statewide Average Annual Wage	$ 42,312	$ 41,574	$ 40,991	
Percentage of Statewide Average Annual Wage	151.7%	154.0%	156.2%	
Total Net State Revenues $ (M)	42.9	58.6	46.2	**147.7**
Return-on-Investment by year	3.5	8.4	11.3	
Return-on-Investment for the 3 year period				**6.4**

Statewide Economic Model Impact of the Qualified Target Industry Tax Refund Program -- Single Incentive Projects (Culled)

		2009-10	**2010-11**	**2011-12**	**Total**		**Average per Year**
Personal Income	Nominal $ (M)	1,659.6	2,367.8	1,979.7	**6,007.0**		**2,002.3**
Real Disposable Personal Income	Fixed 2009 $ (M)	1,424.8	2,001.8	1,650.6	**5,077.2**		**1,692.4**
Real Gross Domestic Product	Fixed 2009 $ (M)	1,633.2	2,198.4	1,663.3	**5,494.9**		**1,831.6**
Consumption by Households and Government	Fixed 2009 $ (M)	1,420.3	1,992.0	1,623.5	**5,035.8**		**1,678.6**
Real Output	Fixed 2009 $ (M)	2,353.9	3,087.3	2,258.6	**7,699.8**		**2,566.6**
		2009-10	**2010-11**	**2011-12**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	4,595	4,331	660	***660***	4,595	**3,195**
Population	Persons	1,248	4,770	8,916	***1,248***		**4,978**

Program Description…

The Qualified Target Industry Tax Refund Program (QTI), established in 1995, is intended to encourage the creation of high-wage jobs (115 percent or more of the area or statewide annual wage) in targeted industries, with awards ranging from $3,000 - $13,500 per job.[46] Unless waived by DEO, 20 percent of the award must be provided by the city or county government in which the project is located.

QTI is a grant program, subject to annual appropriation, with the grant award determined by the interaction between the number of qualifying employees and certain taxes paid to both state and local government. Each QTI project has a performance-based contract, which outlines specific milestones that must be achieved and verified by the state prior to payment of funds.

QTI Per-Job Award Thresholds

		Eligible Award	State Liability
Base award with minimum wage criteria	$	3,000	2,400
Base award if located in a Rural Area, Enterprise Zone or, until 6/30/14, "Disproportionally Affected" County	+	3,000	2,400
If wage @ 150% of annual average area wage, **or**	+	1,000	800
If wage @ 200% of annual average area wage	+	2,000	1,600
If local financial support equals to state awards ($2,400 or $4,800)	+	1,000	800
If business operates in a "High-Impact" Sector, **or**			
If business increases exports thru airport or seaport by 10%	+	2,000	1,600
If located in a designated Brownfield Area	+	2,500	2,000
Maximum per-job award possible	$	**13,500**	**10,800**
Maximum award per-business, per year:	$		1,500,000
Maximum award per-business, per year, if in Rural Area, Enterprise Zone or, "Disproportionally Affected" County	$		2,500,000
Maximum award per-business, cummulative:		uncapped, as of 2013	

Analysis and Findings…

During the review period, 148 projects received a payment from the Qualified Target Industry Tax Refund Program. The QTI program was evaluated under three scenarios – bundled projects, single incentive projects, and single incentive projects (culled)—with the return-on-investment calculated separately for each scenario.

Bundled Projects Scenario…

The bundled project scenario contained 20 projects with state payments totaling $4,750,745 for the period. There was an estimated 3,989 new project jobs created over the period with an average annual wage of $66,801 for the jobs created. The economic activity associated with the capital investment and jobs generated a net increase in state revenues of $32.9 million.

---

[46] Section 288.106, F.S. The per-job award increases from the $3,000 base when wages exceed 150 percent or 200 percent of the area or statewide annual wage, and when projects are located in a rural county, an Enterprise Zone, a Brownfield site, or until 6/30/14, in any of the eight counties that were disproportionately affected by the BP Gulf Oil Spill: Bay, Escambia, Franklin, Gulf, Okaloosa, Santa Rosa, Walton and Wakulla Counties. In 2010, per-job increases of $2,000 were authorized when the local financial support is equal to the state's incentive award, for "high-impact sector" businesses, or when the business increases exports of its goods through a seaport or airport in the state by 10 percent. From 7/1/11 through 6/30/14, DEO may waive wage or local financial support eligibility requirements for Disproportionately Affected Counties.

The return-on-investment for the bundled projects is 6.9. The ROI for this scenario is slightly higher than the other scenarios for the QTI program. This is due to the fact that the projects in this scenario were combined with incentives that may have had a capital investment requirement. The allocated capital investment associated with these projects was added to total output generated by the project. Further, projects in this scenario had higher wages since most of the other incentive programs (80 percent with QACF) awarded to these projects had a greater wage requirement than the QTI program. This also contributed to higher output for these QTI projects.

Single Incentive Projects Scenarios…
In this scenario, there were 128 projects receiving state payments totaling $23,238,364 for the review period. There was an estimated 29,032 new project jobs created over the period with an average annual wage of $63,446 for the jobs created. The economic activity associated with the jobs generated a net increase in state revenues of $157.8 million. The return-on-investment for the QTI program under this scenario is 6.8. In addition to the net new revenues to the state, Florida's economy also benefited. These projects generated an average of $1.7 billion a year in inflation-adjusted disposable personal income or 0.26 percent of the state's total and nearly $1.9 billion a year in real gross domestic product or 0.25 percent of the state's total.

In the third scenario – single incentive projects (culled) – six projects were removed from the previous scenario as these projects were determined to be Florida market or resource dependent. The six removed projects operated in the following industries: manufacturing, wholesale trade, finance and insurance, and management of companies and headquarters. State payments for the QTI program remained the same as the single incentive projects scenario, but total jobs created dropped to 28,181. The average annual wage for the jobs created was $67,074. The economic activity associated with the jobs generated a net increase in state revenues of $147.7 million. The ROI under this scenario is 6.4.

Conclusion…
In all three scenarios, the return-on-investment for the QTI program is robust. Several factors contribute to the overall high ROI for the program, including industry composition, high wages, and program design. It is highly likely that the results will be similar in future years because of the high number of and wide array of projects.

According to s. 288.106, F.S., the QTI program is designed to attract business in specific high growth, recession resistant, and market independent industries such as manufacturing and professional services. These industries, called Target Industries, are designated by Enterprise Florida, Inc., and the Department of Economic Opportunity. These target industries have a greater effect on the economy due to their indirect and induced effects. This can be viewed by looking at the economic multipliers associated with these industries as shown in the highlighted areas on the chart on the following page.

State of Florida Aggregate Type II Multipliers (2002/2007)

Industry	Multiplier Direct Effect Earnings (dollars)	Multiplier Direct Effect Employment (jobs)
Crop and Animal Production	2.2417	1.6801
Forestry, fishing, and related activities	2.0920	1.6618
Mining, except oil and gas	2.0099	3.1418
Utilities	1.7595	2.8774
Construction	1.8981	1.9967
Fabricated Metal Product Manufacturing	2.0443	2.1938
Computer and Electronic Part Manufacturing	2.3997	3.5272
Miscellaneous Manufacturing	1.8788	2.6587
Chemical Manufacturing	2.7699	4.1944
Wholesale Trade	1.8347	2.3644
Retail Trade	1.7763	1.5674
Air Transportation	1.9280	2.5293
Warehousing and Storage	1.7632	1.7905
Internet and Other Information Services	1.9398	2.5371
Credit intermediation and related services	2.0484	2.5995
Real Estate	2.8866	1.8975
Professional, Scientific, and Technical Services	1.6933	2.1082
Management of Companies and Enterprises	1.8285	2.9350
Administrative and Support Services	1.7091	1.4624
Educational Services	1.7702	1.6030
Hospitals	1.7646	2.0150
Performing Arts, sports, museums, and parks	1.9371	1.7188
Accommodation	1.9141	1.7708
Other Services	2.0108	1.7248

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Input-Output Modeling System (RIMS II)

With the exception of the mining and utilities industries, Florida's current target industries have high employment multipliers when compared to other industries within the state. The higher the multiplier, the greater the impact will be to the state. The projects in the QTI analysis were largely in designated target industries such as manufacturing (29.7 percent), management of companies (19.6 percent), and professional, scientific, and technical services (12.8 percent).

The QTI program is also designed to attract high wage jobs. The statute requires that the average annual wage commitment of businesses participating in the program be at least 115 percent of the average annual wage in the state, county, or Metropolitan Statistical Area in which the business locates. This wage commitment is exclusive of any benefits such as health insurance or 401K contributions. The average annual wage for the State of Florida was approximately $42,000 during calendar years 2009 to 2011. A review of wages for the projects included in the analysis showed that the actual wage of the QTI projects were much greater than 115 percent of the average annual wage in the state. In fact, in most years, the projects under review had wages higher than 150 percent of the statewide average annual wage. Higher than average wages leads to higher output associated with the projects which, in turn, generates more revenue for the State of Florida.

Another important factor when considering the return-on-investment for the QTI program is the design of the program itself. Since QTI is a pay for performance program, the state is only paying for jobs that are contracted for and actually created by the business. Businesses that fail to perform and do not create jobs are never captured in the analysis as these businesses did not receive payments in the review period. Moreover, additional incentive dollars are not paid to businesses for jobs that a business

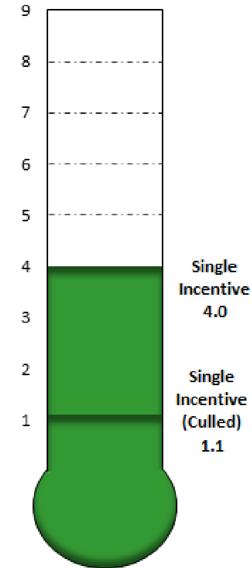
creates above and beyond its contractual obligations. In essence, in the review period, the state is receiving a windfall of job creation for which it is not obligated to pay. This is evident when looking at the projected new jobs by year in comparison to actual jobs created and used in the analysis. The QTI businesses have created more than three times as many jobs as expected which is a function of both projects that have hired faster than expected and projects that have hired more jobs in total. Future ROIs would be lower if businesses create only the contractually required number of jobs. Also note that project jobs in the review period are greater than total employment. This is because some jobs are lost in state government due to the cost of the grants and redirected state spending.

Finally, any capital investment made by the single QTI projects is not reported since it is not a requirement of the program. This would understate the ROI of the program in those instances where businesses have capital expenditures.

BROWNFIELD REDEVELOPMENT BONUS TAX REFUND

Project Summary Statistics

Total Number of Brownfield Projects	**9**	**100.0%**
Industry Compostion		
Wholesale Trade 42	2	22.2%
Retail Trade 44-45	5	55.6%
Transportation and Warehousing 48-49	1	11.1%
Management of Companies and Enterprises 55	1	11.1%



Single Incentive Project Summary Statistics

Number of Single Brownfield Projects	**9**	**100.0%**
Industry Compostion		
Wholesale Trade 42	2	22.2%
Retail Trade 44-45	5	55.6%
Transportation and Warehousing 48-49	1	11.1%
Management of Companies and Enterprises 55	1	11.1%

Single Incentive Brownfield Redevelopment Tax Refund Projects

	2009-10	**2010-11**	**2011-12**	**Total**
Anticipated State Payments in Window	$ 567,500	$ 644,500	$ 361,000	**$ 1,573,000**
Actual State Payments Used in Analysis	$ 583,660	$ 324,754	$ 552,832	**$ 1,461,245**
Confirmed Capital Investment	$ 11,341,000	$ 6,334,579	$ -	**$ 17,675,579**
Anticipated New Jobs by Year	254	-	-	**254**
Actual Jobs Used in Analysis by year	611	612	612	**1835**
Average Annual Wage of Projects	$ 25,430	$ 24,448	$ 25,448	
Statewide Average Annual Wage	$ 42,312	$ 41,574	$ 40,991	
Percentage of Statewide Average Annual Wage	60.1%	58.8%	62.1%	
Total Net State Revenues $ (M)	2.1	2.2	1.6	**5.9**
Return-on-Investment by year	3.5	7.3	2.7	
Return-on-Investment for the 3 year period				**4.0**

Statewide Economic Model Impact of the Brownfield Redevelopment Tax Refund Program -- Single Incentive Projects

		2009-10	**2010-11**	**2011-12**	**Total**		**Average per Year**
Personal Income	Nominal $ (M)	74.1	93.8	74.9	**242.8**		**80.9**
Real Disposable Personal Income	Fixed 2009 $ (M)	63.5	79.3	62.7	**205.5**		**68.5**
Real Gross Domestic Product	Fixed 2009 $ (M)	72.0	84.8	59.1	**215.9**		**72.0**
Consumption by Households and Government	Fixed 2009 $ (M)	64.9	78.9	59.7	**203.5**		**67.8**
Real Output	Fixed 2009 $ (M)	90.2	102.2	68.3	**260.7**		**86.9**
		2009-10	**2010-11**	**2011-12**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	457	504	263	***263***	504	**408**
Population	Persons	176	368	560	***176***		**368**

Single Incentive Project (Culled) Summary Statistics

Number of Brownfield Projects incl. in Culled analysis	**3**	**33.3%**
Industry Compostion		
Wholesale Trade 42	1	33.3%
Transportation and Warehousing 48-49	1	33.3%
Management of Companies and Enterprises 55	1	33.3%
Number of Brownfield Projects removed from analysis	*6*	
Industry Compostion		
Wholesale Trade 42	*1*	*16.7%*
Retail Trade 44-45	*5*	*83.3%*

Single Incentive Brownfield Projects (Culled)

	2009-10	**2010-11**	**2011-12**	**Total**
Anticipated State Payments in Window	$ 567,500	$ 644,500	$ 361,000	**$ 1,573,000**
Actual State Payments Used in Analysis	$ 583,660	$ 324,754	$ 552,832	**$ 1,461,246**
Confirmed Capital Investment	$ -	$ 2,531,784	$ -	**$ 2,531,784**
Anticipated New Jobs by Year	29	-	-	**29**
Actual Jobs Used in Analysis by Year	99	100	100	**299**
Average Annual Wage of Projects	$ 29,336	$ 29,758	$ 29,758	
Statewide Average Annual Wage	$ 42,312	$ 41,574	$ 40,991	
Percentage of Statewide Average Annual Wage	69.3%	71.6%	72.6%	
Total Net State Revenues $ (M)	0.6	0.7	0.4	**1.6**
Return-on-Investment by year	1.0	2.3	0.7	
Return-on-Investment for the 3 year period				**1.1**

Statewide Economic Model Impact of the Brownfield Redevelopment Tax Refund Program -- Single Incentive Projects (Culled)

		2009-10	**2010-11**	**2011-12**	**Total**		**Average per Year**
Personal Income	Nominal $ (M)	17.9	21.4	15.4	**54.7**		**18.2**
Real Disposable Personal Income	Fixed 2009 $ (M)	15.4	18.1	12.8	**46.3**		**15.4**
Real Gross Domestic Product	Fixed 2009 $ (M)	17.0	19.3	12.0	**48.3**		**16.1**
Consumption by Households and Government	Fixed 2009 $ (M)	15.4	17.9	12.1	**45.5**		**15.2**
Real Output	Fixed 2009 $ (M)	22.0	24.3	14.4	**60.7**		**20.2**
		2009-10	**2010-11**	**2011-12**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	58	55	13	***13***	58	**42**
Population	Persons	37	58	78	***37***		**58**

Brownfield Redevelopment Bonus Tax Refund Program…
The Brownfield Redevelopment Bonus Tax Refund Program contains two distinct incentives designed to encourage economic expansion within Florida's Brownfield areas. These are geographic locations designated by local communities for the presence, or until 2013 the perceived presence, of environmental contamination or blight. This incentive is a grant program, subject to annual appropriation, with the grant award determined by the interaction between the number of qualifying employees and certain taxes paid to both state and local government.

Enacted in 1997, the first incentive[47] – QTI/Brownfield – provides a bonus grant of $2,500 per job created for approved QTI projects located in Brownfield areas. Because it is a bonus to the QTI award, projects receiving this bonus incentive are subject to the same qualification and performance criteria as QTI projects.[48]

Enacted in 2000, a separate stand-alone incentive[49] provides a grant of up to $2,500 per job created, to businesses:

> "…that can demonstrate a fixed capital investment of at least $2 million in mixed-use business activities, including multiunit housing, commercial, retail, and industrial in Brownfield areas, or at least $500,000 in Brownfield areas that do not require site cleanup, and that provides benefits to its employees."[50]

In this case the per-job award is limited to 20 percent of the average annual wage for the jobs created.

Analysis and Findings…
The Brownfield Redevelopment Bonus Tax Refund Program's legislative intent includes non-economic policy goals in addition to economic:

> "The reduction of public health and environmental hazards on existing commercial and industrial sites is vital to their use and reuse as sources of employment, housing, recreation, and open space areas. The reuse of industrial land is an important component of sound land use policy."[51]

The legislative intent also addresses environmental justice, community blight and environmental equity. The return-on-investment does not account for any non-economic features.

Single Incentive Projects Scenario…
The analysis shows a return-on-investment of 4.0 for the Brownfield Redevelopment Bonus Tax Refund Program (BFRD). The ROI was calculated based on $5.9 million of additional tax revenue generated from the Brownfield projects. In addition, Real GDP increased by $215.9 million and Personal Income by $242.2 million.

---

[47] Section 288.107(2)(a), F.S.
[48] Because it is a QTI award, this Brownfield Bonus is included in the measure of QTI projects.
[49] Section 288.107(2)(b), F.S.
[50] In 2013, the Legislature limited eligibility to sites for which rehabilitation agreements have been executed, and abutting parcels, thereby prospectively eliminating the second option. See Section 18, ch. 2013-42, Laws of Florida.
[51] Section 376.78(1), F.S.

In the review period, nine projects received state incentives related to the BFRD program. The projects came from the following industry sectors: retail trade (five), wholesale trade (two), transportation (one) and management (one). There was an average of 611 project jobs attributed to these projects with an average annual wage of $25,109.

Capital investment was $11.3 million in FY 2009-10 and $6.3 million in FY 2010-11; however, the BRFD program experienced significant capital investment in the years prior to the review period. Only a portion of these investment effects were included in the program's ROI.

This scenario has a healthy ROI because of its low award amount per job and the timing of the state payments. The program provides a maximum grant of $2,500 per job created. This incentive per job amount is the lowest in all of the reviewed programs. The timing of the incentive is also important. The incentive amounts were only paid out after a job was created. This type of pay structure allows the state to start experiencing the benefit before it pays out the incentive.

The ROI for this scenario could have been higher if the industry makeup had been different. The vast majority of the Brownfield projects were in retail trade, and, on average, the retail sector is a low-wage and low-output industry. This is demonstrated by the program's low average wage of $25,109. In comparison, the average annual wage for the State of Florida was approximately $42,000 during calendar years 2009 to 2011. While many of the other incentive programs restrict what industries can receive the subsidy and even a few set minimum salary requirements, the BFRD program has no such restrictions. For example, if the industrial sectors were restricted to only manufacturing or finance, salaries and output per worker would be higher, and a higher ROI would be the result.

Single Incentive Projects (Culled) Scenario…

In this scenario, six out of the nine projects were removed from the analysis, and the ROI is 1.1. The culled projects came from the wholesale and retail sectors, all of which were determined to be market or resource dependent. The output and capital investments from these projects were removed from the model; however, the state's payments remained. This reduced jobs from 1,835 in the first scenario to 299 in this scenario. Capital investment dropped as well leaving only FY 2010-11 with $2.5 million in expenditures. All model metrics fell, including tax revenue to the state, which reduces the ROI. It should be noted that this ROI is based on only three Brownfield Redevelopment Bonus Tax Refund projects.

Conclusion…

The BFRD Program created an average of 612 jobs in the review period per year while the average total employment was an increase of 408. This is because some jobs are lost in state government due to the cost of the incentives and redirected state spending.

The BFRD Program requirements changed in 2013. Projects will only qualify if the project is on a parcel designated a Brownfield site or any abutting real property parcel within a Brownfield area and has a rehabilitation agreement with the Florida's Department of Environmental Protection or a designated local government. [52] Prior to 2013, projects qualified if the development occurred anywhere within a

[52]Brownfield site is defined as any property where the expansion, redevelopment or reuse of which may be complicated by actual or perceived environmental contamination. These sites are designated by Florida Department of Environmental Protection. A Brownfield area is defined as any property designated by resolution of a local government, and defined as contiguous areas of one or more Brownfield sites, some of which may not be contaminated. There are more properties designated as Brownfield areas than designated as Brownfield sites.

Brownfield area. Out of the nine projects in the study, only six projects would qualify now for the bonus refund. Based on this, the number of new projects that could qualify for the incentive will drop in the future. The ultimate effect on the return-on-investment is ambiguous.

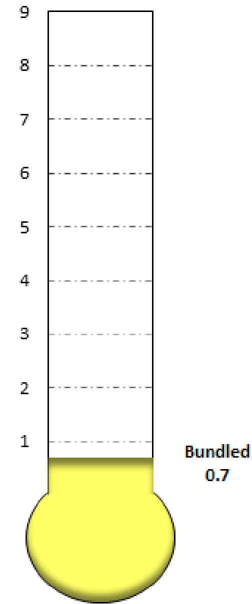
HIGH-IMPACT SECTOR PERFORMANCE GRANT

Project Summary Statistics

Total Number of HIPI Projects	**2**	
Industry Compostion		
Professional, Scientific, and Technical Services 54	2	100.0%

Bundled Project Summary Statistics

Number of Bundled HIPI Projects	**2**	**100.0%**
Bundled Compostion		
HIPI, QTI	2	100.0%
Industry Composition		
Professional, Scientific, and Technical Services 54	2	100.0%



Bundled HIPI Projects

	2009-10	2010-11	2011-12	Total
Anticipated State Payments in Window	$ -	$ -	$ 1,000,000	**$ 1,000,000**
Actual State Payments Used in Analysis	$ -	$ -	$ 1,000,000	**$ 1,000,000**
Confirmed Capital Investment	$ -	$ -	$ 12,107,369	**$ 12,107,369**
Anticipated New Jobs by Year	-	20	-	**20**
Actual Jobs Used in Analysis by Year	-	18	18	**36**
Projected Average Annual Wage of Projects*	$ 42,000	$ 42,000	$ 42,000	
Statewide Average Annual Wage	$ 42,312	$ 41,574	$ 40,991	
Percentage of Statewide Average Annual Wage	99.3%	101.0%	102.5%	
Total Net State Revenues $ (M)	-	0.2	0.4	**0.7**
Return-on-Investment by year	-	-	0.4	
Return-on-Investment for the 3 year period				**0.7**

** Actual average wages are not required to be collected for the HIPI program. Wages reflect those that were committed to by the business on the project application.*

Statewide Economic Model Impact of the High-Impact Sector Performance Grant Program -- Bundled Projects

		2009-10	2010-11	2011-12	Total		Average per Year
Personal Income	Nominal $ (M)	1.0	6.4	10.3	**17.8**		**5.9**
Real Disposable Personal Income	Fixed 2009 $ (M)	0.9	5.4	8.5	**14.7**		**4.9**
Real Gross Domestic Product	Fixed 2009 $ (M)	1.1	6.5	9.9	**17.4**		**5.8**
Consumption by Households and Government	Fixed 2009 $ (M)	0.9	5.5	8.6	**15.0**		**5.0**
Real Output	Fixed 2009 $ (M)	1.3	8.0	11.8	**21.2**		**7.1**
		2009-10	**2010-11**	**2011-12**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	4	29	38	***4***	38	**23**
Population	Persons	0	0	16	***0***		**5**

Program Description…

Enacted in 1997, the High-Impact Sector Performance Grant[53] (HIPI) is designed to encourage the growth of high-impact sector facilities. The program awards grants of at least $500,000 for businesses creating jobs and providing a cumulative capital investment of at least $25 million in facilities operating in high-impact sectors, as designated by DEO. This performance-based grant is paid in two equal installments, one upon commencement of operations and the other upon commencement of full operations (project is fully constructed and all jobs are in place).

Analysis and Findings…

During the review period, two projects received HIPI payments totaling $1,000,000 for commencement of operations. Both projects were in the Research and Development industry, and both received QTI awards, but have not yet received QTI payments.

The return-on-investment for the HIPI Program is 0.7. Therefore, the additional state revenues do not fully pay the cost of the incentive.

The low return-on-investment for the program is mainly attributable to the industry composition of the projects. Unlike other industries such as manufacturing, research and development does not generate significant taxable output. As indicated in the example below, a project operating in a manufacturing industry that creates 50 jobs at an average wage of $42,000 per year is estimated to have much higher output than the same project operating in research and development.

	Multipliers							
Industry	Final Demand Output	Final Demand Earnings	Final Demand Employment	Direct Effect Earnings	Direct Effect Employment	Number of Jobs	Average Wage of Jobs	Estimated Total Output
Electronic Computer Manufacturing	1.7026	0.3255	7.2760	2.7854	3.3000	50	$42,000	$17,970,323
Research and Development	2.1961	0.7908	17.8397	1.8745	2.7330	50	$42,000	$4,977,807

Capital investment is a requirement of the HIPI Program, and the capital expenditures of $12 million increase the return-on-investment of the program. Without the capital investment, the ROI of the program would be lower.

Though the ROI for the HIPI Program is low, it is important to realize that there were only two projects in the review period. However, at this point there would be no reason to believe that a future program ROI would be materially different given the size, scope, and type of projects seen thus far.

[53] Section 288.108, F.S.

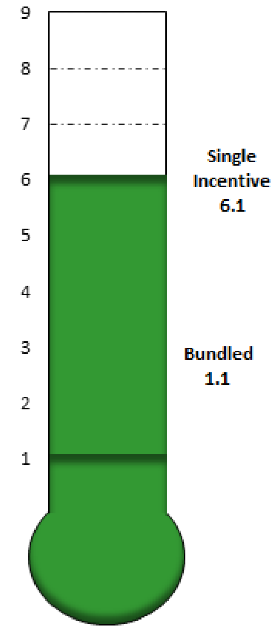
QUICK ACTION CLOSING FUND

Project Summary Statistics

Total Number of QACF Projects	**28**	**100.0%**
Industry Compostion		
Manufacturing 31-33	11	39.3%
Wholesale Trade 42	1	3.6%
Information 51	2	7.1%
Professional, Scientific, and Technical Services 54	5	17.9%
Management of Companies and Enterprises 55	7	25.0%
Administrative and Support Services 56	2	7.1%

Bundled Project Summary Statistics

Number of Bundled QACF Projects	**21**	**75.0%**
** Funds for 7 additional prjoects were placed in escrow*		
Bundled Compostion		
QACF, IIP	1	4.8%
QACF, QTI	18	85.7%
QACF, CITC, QTI	2	9.5%
Industry Composition		
Manufacturing 31-33	8	38.1%
Information 51	2	9.5%
Professional, Scientific, and Technical Services 54	3	14.3%
Management of Companies and Enterprises 55	6	28.6%
Administrative and Support Services 56	2	9.5%



Bundled QACF Projects

	2009-10	2010-11	2011-12	Total
Anticipated State Payments for QACF in Window	$ 14,379,000	$ 4,730,000	$ 2,807,500	**$ 21,916,500**
Actual State Payments Used in Analysis of QACF Excluding Escrow	$ 12,978,336	$ 4,730,000	$ 2,807,500	**$ 20,515,836**
State Payments for QACF Paid to Escrow	$ (5,500,000)	$ 400,000	$ 6,886,000	**$ 1,786,000**
QACF Returned to the State in the Window	$		3,690,644	**$ 3,690,644**
Confirmed Capital Investment	$ 45,463	$ 18,379,932	$ 490,569	**$ 18,915,964**
Anticipated New or Retained Jobs by Year	619	900	1,181	**2,700**
Actual Jobs Used in Analysis by Year	373	1,104	1,518	**2,995**
Average Annual Wage of Projects	$ 68,685	$ 65,274	$ 74,650	
Statewide Average Annual Wage	$ 42,312	$ 41,574	$ 40,991	
Percentage of Statewide Average Annual Wage	162.3%	157.0%	182.1%	
Total Net State Revenues $ (M)	3.8	9.3	9.9	**23.0**
Return-on-Investment by year	0.3	2.0	3.5	
Return-on-Investment for the 3 year period				**1.1**

Statewide Economic Model Impact of the Quick Action Closing Fund Program -- Bundled Projects

		2009-10	2010-11	2011-12	Total		Average per Year
Personal Income	Nominal $ (M)	139.3	339.9	373.1	**852.3**		**284.1**
Real Disposable Personal Income	Fixed 2009 $ (M)	120.3	289.2	313.3	**722.8**		**240.9**
Real Gross Domestic Product	Fixed 2009 $ (M)	134.2	326.9	337.0	**798.2**		**266.1**
Consumption by Households and Government	Fixed 2009 $ (M)	111.1	273.1	295.1	**679.3**		**226.4**
Real Output	Fixed 2009 $ (M)	185.6	453.6	472.4	**1,111.7**		**370.6**
		2009-10	**2010-11**	**2011-12**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	559	1,240	949	***559***	1,240	**916**
Population	Persons	64	368	1,008	***64***		**480**

Single Incentive Project Summary Statistics

Number of Single QACF Projects	**7**	**25.0%**
** Funds for 4 additional prjoects were placed in escrow*		
Industry Composition		
Manufacturing 31-33	3	42.9%
Wholesale Trade 42	1	14.3%
Professional, Scientific, and Technical Services 54	2	28.6%
Management of Companies and Enterprises 55	1	14.3%

Single Incentive QACF Projects

	2009-10	**2010-11**	**2011-12**	**Total**
Anticipated State Payments for QACF in Window	$ 9,621,000	$ 4,360,830	$ 1,150,000	**$ 15,131,830**
Actual State Payments Used in Analysis of QACF Excluding Escrow	$ 9,513,930	$ 1,735,830	$ 400,000	**$ 11,649,760**
State Payments for QACF Paid to Escrow	$ -	$ -	$ 8,250,000	**$ 8,250,000**
QACF Returned to the State in the Window	$		3,482,070	**$ 3,482,070**
Confirmed Capital Investment	$ 11,691,022	$ -	$ -	**$ 11,691,022**
Anticipated New or Retained Jobs by Year	-	555	50	**605**
Actual Jobs Used in Analysis by Year	1,124	3,738	3,646	**8,508**
Average Annual Wage of Projects	$ 61,989	$ 62,509	$ 96,089	
Statewide Average Annual Wage	$ 42,312	$ 41,574	$ 40,991	
Percentage of Statewide Average Annual Wage	146.5%	150.4%	234.4%	
Total Net State Revenues $ (M)	11.8	28.7	30.1	**70.6**
Return-on-Investment by year	1.2	16.9	75.3	
Return-on-Investment for the 3 year period				**6.1**

Statewide Economic Model Impact of the Quick Action Closing Fund Program -- Single Incentive Projects

		2009-10	**2010-11**	**2011-12**	**Total**		**Average per Year**
Personal Income	Nominal $ (M)	369.8	939.4	1,035.8	**2,345.0**		**781.7**
Real Disposable Personal Income	Fixed 2009 $ (M)	318.6	796.0	865.5	**1,980.1**		**660.0**
Real Gross Domestic Product	Fixed 2009 $ (M)	382.6	940.3	961.4	**2,284.3**		**761.4**
Consumption by Households and Government	Fixed 2009 $ (M)	321.0	809.3	870.9	**2,001.2**		**667.1**
Real Output	Fixed 2009 $ (M)	669.0	1,533.8	1,509.7	**3,712.5**		**1,237.5**
		2009-10	**2010-11**	**2011-12**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	1,471	3,183	2,304	***1,471***	3,183	**2,319**
Population	Persons	144	892	2,584	***144***		**1,207**

Program Description…

Enacted in 1999, the Quick Action Closing Fund[54] (QACF) is a grant program used to respond to extraordinary economic opportunities for:

> "…high-impact business facilities, critical private infrastructure in rural areas, and key businesses in economically distressed urban or rural communities…and …projects to retain or create high-technology jobs that are directly associated with developing a more diverse aerospace economy."

Awards are limited to target industry jobs that pay an average annual wage of at least 125 percent of the area-wide or statewide private sector average annual wage, and projects that have a positive economic benefit ratio of at least five to one. DEO may waive these requirements under specified circumstances. DEO reports that QACF awards are generally paid out after the business has made a substantial capital investment toward tangible personal property tied to the project.[55]

Analysis and Findings…

During the review period, 28 projects were evaluated for the Quick Action Closing Fund program. For the analysis, the QACF program was evaluated under two scenarios – bundled projects and single incentive projects – with the return-on-investment calculated separately for each scenario.

Bundled Projects Scenario…

Of the 28 QACF projects evaluated, 21 were bundled with at least one other economic development incentive (85.7 percent with QTI). For the period, state payments totaled $20,515,836, and capital investment for the projects totaled $18,915,964. There were an estimated 2,995 new project jobs created with an average annual wage of $69,536. The economic activity associated with the capital investment and jobs generated a net increase in state revenues of $20.5 million. The return-on-investment for bundled QACF projects is 1.1.

One major factor negatively affecting the ROI for this scenario is the size of the Closing Fund award in relation to the total amount awarded from other economic development incentive programs. On average the Closing Fund award is approximately 46 percent of the total economic development incentive awarded to the business. As a result, only 46 percent of the jobs created by the projects in this scenario are attributable to the QACF. In addition, 54 percent of the capital investment that is administratively required for the QACF program is being attributed to the QTI which has no capital investment requirement.

Single Incentive Projects Scenarios…

There were seven projects for this scenario with state payments totaling $11,649,760 for the period. There were an estimated 8,508 new project jobs created with an average annual wage of $73,529. The economic activity associated with the capital investment and jobs generated a net increase in state revenues of $70.6 million. The return-on-investment for the QACF program under this scenario is 6.1.

---

[54] Section 288.1088, F.S. It is important to note that of all state incentive programs, only QACF, Economic Development Transportation Fund (commonly referred to as the "Road Fund," s. 239.2821, F.S.), and the Qualified Defense & Space Flight Business Tax Refund (QDS, s. 288.1045(3)(f)7., F.S.) programs may be used for retention projects. However, other state incentives may be awarded for new jobs created in conjunction with retention projects.

[55] Enterprise Florida, Inc., 2012 Annual Incentives Report. Tallahassee, Florida: 11.

The single incentive projects scenario has a much higher ROI than the bundled projects scenario due to several factors. One, the scenario contained only seven projects and the composition of those projects had higher job creation and wages relative to the bundled projects. Two, this scenario had a larger amount of QACF repayments which reduced the state's cost.

Conclusion…

Several factors affect the return-on-investment for the Quick Action Closing Fund Program, including industry composition, high wages, the use of escrow, and repayment of Closing Fund awards to the state.

According to s. 288.1088, F.S., the Quick Action Closing Fund may be awarded to businesses that operate in a target industry as designated in s. 288.106, F.S. As previously noted, these industries have a greater effect on the local economy due to their strong indirect and induced effects. This can be viewed by looking at the economic multipliers associated with these industries. See chart on page 39.

With the exception of the mining and utilities industries, Florida's current target industries have high employment multipliers when compared to other industries within the state. The higher the multiplier, the greater the impact will be to the state. The projects in the QACF analysis were largely in designated target industries such as manufacturing (39.3 percent), management of companies (25.0 percent), and professional, scientific, and technical services (17.9 percent).

The QACF program is also designed to attract high wage jobs. The statute requires that the average annual wage commitment of businesses participating in the program be at least 125 percent of the average annual wage in the state, county, or Metropolitan Statistical Area in which the business locates. This wage commitment is exclusive of any benefits such as health insurance or 401K contributions. The average annual wage for the State of Florida was approximately $42,000 during calendar years 2009 to 2011. In most years, the projects under review had wages higher than 150 percent of the statewide average annual wage. Higher than average wages leads to higher output associated with the projects which, in turn, generates more revenue for the State of Florida.

Another factor affecting the return-on-investment for the QACF program is the use of escrow. The Department of Economic Opportunity has the ability to secure grant funds for a project by placing the funds into an escrow account managed by Enterprise Florida, Inc. until such time that a project has met specific contractual milestones such as job creation and/or capital investment. During the analysis window, 11 projects had funds placed in escrow totaling $10,036,000. These projects have job creation and/or capital investment milestones that are expected to be completed by the next analysis to be performed by EDR. For modeling purposes escrowed funds decrease the return-on-investment for the QACF program because the state has lost the ability to spend escrowed dollars, yet the benefit (e.g., job creation and increased output) of this spending is not realized until some point in the future.

Conversely, repayment of Quick Action Closing Fund awards increases the return-on-investment for the program. During the analysis window $7,172,714 in Closing Fund awards were repaid by businesses to the State of Florida. For some of the projects, the state still received the economic benefit of partial job creation and/or capital investment. Over time, future repayments from the escrow accounts can be expected to replace the repayments directly from businesses with no long-term change to the ROI from the different administrative practices.

The QACF Program created an average of 3,834 project jobs in the review period per year while the average total employment per year was 1,618. This is because some jobs are lost in state government due to the cost of the awards and redirected state spending.

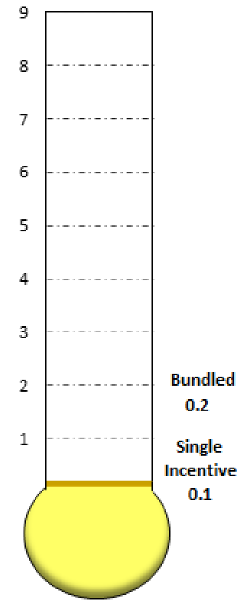
INNOVATION INCENTIVE PROGRAM

Project Summary Statistics

Total Number of Innovation Projects	**8**	**100.0%**
Industry Compostion		
Professional, Scientific, and Technical Services 54	8	100.0%

Bundled Project Summary Statistics

Number of Bundled Innovation Projects	**1**	**12.5%**
Bundled Compostion		
QACF, IIP	1	100.0%
Industry Composition		
Professional, Scientific, and Technical Services 54	1	100.0%



Bundled Innovation Incentive Projects

	2009-10	2010-11	2011-12	Total
Anticipated State Payments in Window	N/A	N/A	N/A	
Actual State Payments Used in Analysis	$ 4,000,000	$ 4,000,000	$ 3,000,000	**$ 11,000,000**
Confirmed Capital Investment	$ -	$ -	$ -	
Anticipated New Jobs by Year	45	30	25	**100**
Actual Jobs Used in Analysis by Year	65	84	84	**233**
Average Annual Wage of Projects	$ 63,022	$ 62,812	$ 58,609	
Statewide Average Annual Wage	$ 42,312	$ 41,574	$ 40,991	
Percentage of Statewide Average Annual Wage	148.9%	151.1%	143.0%	
Total Net State Revenues $ (M)	0.4	0.7	0.6	**1.7**
Return-on-Investment by year	0.1	0.2	0.2	
Return-on-Investment for the 3 year period				**0.2**

Statewide Economic Model Impact of the Innovation Incentive Program -- Bundled Projects

		2009-10	2010-11	2011-12	Total		Average per Year
Personal Income	Nominal $ (M)	15.0	23.5	21.8	**60.3**		**20.1**
Real Disposable Personal Income	Fixed 2009 $ (M)	13.1	20.1	18.2	**51.4**		**17.1**
Real Gross Domestic Product	Fixed 2009 $ (M)	13.0	20.1	17.8	**50.9**		**17.0**
Consumption by Households and Government	Fixed 2009 $ (M)	9.0	15.3	15.1	**39.4**		**13.1**
Real Output	Fixed 2009 $ (M)	18.5	27.3	22.4	**68.3**		**22.8**
		2009-10	**2010-11**	**2011-12**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	47	64	45	***45***	64	**52**
Population	Persons	16	58	100	***16***		**58**

Single Incentive Project Summary Statistics

Number of Single Innovation Projects	**7**	**87.5%**
Industry Composition		
Professional, Scientific, and Technical Services 54	7	100.0%

Single Incentive Innovation Incentive Projects

	2009-10	2010-11	2011-12	Total
Anticipated State Payments in Window	N/A	N/A	N/A	
Actual State Payments Used in Analysis	$ 63,071,000	$ 94,997,853	$ 34,925,000	**$ 192,993,853**
Confirmed Capital Investment	$ 12,510,949	$ 10,187,120	$ 6,799,389	**$ 29,497,458**
Anticipated New Jobs by Year	376	136	138	**650**
Actual Jobs Used in Analysis by Year	333	388	451	**1,172**
Average Annual Wage of Projects	$ 75,305	$ 78,091	$ 77,397	
Statewide Average Annual Wage	$ 42,312	$ 41,574	$ 40,991	
Percentage of Statewide Average Annual Wage	178.0%	187.8%	188.8%	
Total Net State Revenues $ (M)	5.8	7.8	6.0	**19.7**
Return-on-Investment by year	0.1	0.1	0.2	
Return-on-Investment for the 3 year period				**0.1**

Statewide Economic Model Impact of the Incentive Innovation Incentive Program -- Single Incentive Projects

		2009-10	2010-11	2011-12	Total		Average per Year
Personal Income	Nominal $ (M)	197.7	282.3	229.9	**709.9**		**236.6**
Real Disposable Personal Income	Fixed 2009 $ (M)	170.0	239.0	192.1	**601.1**		**200.4**
Real Gross Domestic Product	Fixed 2009 $ (M)	157.1	214.0	164.5	**535.6**		**178.5**
Consumption by Households and Government	Fixed 2009 $ (M)	97.1	144.3	136.7	**378.1**		**126.0**
Real Output	Fixed 2009 $ (M)	182.9	245.7	190.7	**619.4**		**206.5**
		2009-10	**2010-11**	**2011-12**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	813	939	442	***442***	939	**731**
Population	Persons	240	752	1,376	***240***		**789**

Program Description…

Enacted in 2006, the Innovation Incentive Program[56] (IIP) encourages high-value research and development, innovation business, and alternative and renewable energy projects. Jobs created must pay 130 percent of the average private sector wage, and state awards must be matched by local sources.[57] IIP performance contracts also include a reinvestment requirement, by which recipients must remit a portion of their royalty revenues back to the state for reinvestment in existing state trust funds. Upon completion of project milestones, payments can be requested at will and do not follow a pre-determined schedule.

Analysis and Findings…

There have been nine awards granted under this program to date, eight of which have received payments within the timeframe analyzed in this study. Seven of the projects received only Innovation Incentive awards, and one of them also received an award from the Quick Action Closing Fund. All of the companies that received Innovation Incentives are in the scientific research and development industry. The average annual wage of the single Innovation projects was approximately $77,000, which is nearly double the statewide average annual wage.

The ROI for the Innovation Incentive Program is estimated to be 0.1 for the single projects and 0.2 for the bundled project, which is low compared to other incentive programs evaluated in this study. Because the award amounts for this program are very high relative to the output, the ROI is driven down. The total amount of incentive payments made for all non-EZ programs throughout the review period was $298 million. Innovation Incentive project payments made up $204 million, or 68.4 percent of these payments. Even though the eight Innovation Incentive recipients have created nearly twice the number of jobs they contracted to create during the time period, they were costly to the state given the total payment amounts. In addition, half of the capital investments were made prior to the time period, and therefore the full economic benefit of those investments is not captured in the program ROI.

Another factor contributing to Innovation's low ROI is the industry composition of the projects in the analysis. Unlike other industries such as manufacturing, the research and development industry has relatively low multiplier effects. The economic benefits to the state economy are not as high as other industries where specific products or services are produced and consumed. For example, a number of businesses that received incentives in Florida were in industries that tend to have higher multipliers because their products are consumed directly and the corresponding dollars flow through the economy.

The research and development businesses that receive Innovation Incentives are required to produce a break-even economic benefit to the state within 20 years (an ROI of 1.0). Because EDR's study analyzes activity for only a three-year period in the early years of the program, the calculated ROI may not be representative of this program's future benefits to the state. These endeavors would be expected to take a substantial amount of time, effort, and investment to come to fruition.

A recent OPPAGA report presents favorable results of the Innovation Incentive Program and its effect on the state's emerging biotechnology industry.[58] It finds that, in recent years, employment in biotechnology research and development in Florida has grown faster than the nation and other

[56] Section 288.1089, F.S. The program is similar to the Scripps Florida project approved in 2003.

[57] No adjustments were made in the model for local matches associated with the IIP since this information was not contained in the data provided by DEO. Furthermore, local match for this program can take forms other than cash.

[58] *Florida's Biotechnology Industry is Expanding*; *Cluster Growth Continues to Slowly Progress*, OPPAGA Report No.13-06, March 2013.

comparable states. The report also notes that the number of establishments and the average wage in Florida's biotechnology industry grew between 2008 and 2011. Among other things, OPPAGA reached out to various stakeholders in the biotechnology industry by conducting interviews, a focus group, and a survey. Their research finds that Innovation Incentive recipients have started to communicate with one another in order to share information, discuss research and share resources. The recipients view the collaborative environment in Florida as one indicator that the biotechnology industry will continue to grow. Other indicators include a favorable business climate, strong university research base, and a diverse population in the state. However, the recipients also reported factors that need improvement in the state such as lack of venture capital and the ability to transform scientific discoveries into commercialized products. It is possible that if the industry continues to grow and can overcome the issues that are present today, the returns from this program in the future may see an improvement from the ROIs that have been calculated for this time period.

Given the 20-year time horizon associated with the Innovation Incentive Program, business survival rates become another consideration. There have been several studies done that analyze the probability of success for new businesses. The U.S. Small Business Association reports that only about half of new establishments survive five years or more and only one-third survive 10 years or more. The actual rates vary by industry, but this general trend remains the same. The probability of an individual firm's survival increases with the firm's age. A more detailed study conducted by an economist at the University of Maryland using Bureau of Labor Statistics data reached similar conclusions.[59] This study reports survival rates for a cohort of new businesses over seven years: 81.2 percent first year, 65.8 percent second year, 54.3 percent third year, 44.4 percent fourth year, 38.3 percent fifth year, 34.4 percent sixth year and 31.2 percent seventh year. It is easier to evaluate these percentages as the survival rates of the previous year's survivors. In that study, 81.2 percent of businesses survived the first year and 81.0 percent of those businesses survived the second year. This is stable until the fifth, sixth and seventh years where it begins to increase to 86.3 percent, 89.9 percent, and 90.5 percent, supporting the conclusion that a business has a higher probability of success as it becomes more established; particularly once it passes the five-year mark. While it is possible that the ROIs for the Innovation Incentive program may be higher when looked at over a longer time period, it is also possible that some of the businesses may not be in operation for 20 years. However, seven of the eight recipients have already been in Florida for more than five years, which is a positive indication that they will be successful. It is also possible that the incentive itself may have a positive effect on the recipients' probability of success.

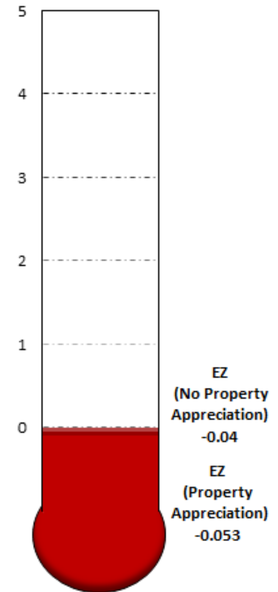
Conclusion…

The unique structure and goals of the Innovation Incentive Program result in a relatively low ROI for several reasons: the awards are very large given the output; half of the capital investment associated with these projects occurred prior to the time period under review and therefore related benefits are not fully represented; the research and development industry has smaller multiplier effects than some other industries; and the program is designed to generate a break-even ROI after 20 years and EDR's analysis covers only three years in the early stages of the program.

[59] Business Employment Dynamics Data: Survival and Longevity, II, Monthly Labor Review, September 2007

FLORIDA ENTERPRISE ZONE PROGRAM

Project Summary Statistics



Fiscal Years 2009-10 through 2011-12			
Enterprise Zone Benefits	**# of Awards**	**# of Recipients**	**Total Amount ($m)**
Building Materials Refund s.212.08(5)(g),(n)&(o), F.S.	618	573	$70,060,428
Business Equipment Refund s.212.08(5)(h), F.S.	360	283	$2,943,481
Electricity Energy Exemption* s.212.08(15), F.S.	Not Reported	Not Reported	$5,434,504
Job Sales & Use Tax Credit s.212.096, F.S.	590	308	$18,427,998
Job Corporate Income Tax Credit s.220.181, F.S.	133	85	$13,439,598
Ad Valorem Tax Credit s.220.182, F.S.	61	40	$4,920,480
Total:	**1762**	**1289**	**$115,226,489**

** Electricity Energy Exemption total amount is an estimate.*

Statewide Economic Model Impact of the EZ Program -- Without Property Appreciation

		2009-10	2010-11	2011-12	Total		Average per Year
Personal Income	Nominal $ (M)	(98.4)	(95.5)	(54.4)	**(248.3)**		**(82.8)**
Real Disposable Personal Income	Fixed 2009 $ (M)	(83.1)	(80.1)	(45.4)	**(208.6)**		**(69.5)**
Real Gross Domestic Product	Fixed 2009 $ (M)	(102.8)	(89.4)	(39.6)	**(231.8)**		**(77.3)**
Consumption by Households and Government	Fixed 2009 $ (M)	(143.3)	(130.7)	(65.5)	**(339.5)**		**(113.2)**
Real Output	Fixed 2009 $ (M)	(121.0)	(101.9)	(42.3)	**(265.2)**		**(88.4)**
		2009-10	**2010-11**	**2011-12**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	(601)	(396)	(42)	***(601)***	(42)	**(346)**
Population	Persons	(124)	(376)	(536)	***(536)***		**(345)**

Statewide Economic Model Impact of the EZ Program -- With Property Appreciation

		2009-10	2010-11	2011-12	Total		Average per Year
Personal Income	Nominal $ (M)	(151.0)	(176.1)	(178.0)	**(505.1)**		**(168.4)**
Real Disposable Personal Income	Fixed 2009 $ (M)	(145.1)	(165.4)	(162.2)	**(472.7)**		**(157.6)**
Real Gross Domestic Product	Fixed 2009 $ (M)	61.2	62.1	46.0	**169.3**		**56.4**
Consumption by Households and Government	Fixed 2009 $ (M)	115.8	126.1	106.0	**347.9**		**116.0**
Real Output	Fixed 2009 $ (M)	40.8	32.2	11.3	**84.3**		**28.1**
		2009-10	**2010-11**	**2011-12**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	188	112	(16)	***(16)***	188	**95**
Population	Persons	(16)	(63)	(158)	***(158)***	(16)	**(79)**

Program Description…
First enacted in 1982, the Florida Enterprise Zone Program was created:

> "… to provide the necessary means to assist local communities, their residents, and the private sector in creating the proper economic and social environment to induce the investment of private resources in productive business enterprises located in severely distressed areas and to provide jobs for residents of such areas." [60]

Under the Enterprise Zone Act, areas of the state meeting specified criteria, including suffering from pervasive poverty, unemployment, and general distress were designated as enterprise zones. Currently, Florida has 65 enterprise zones in 52 of the state's 67 counties.[61] Florida also has three Federal Enterprise Communities and two Federal Empowerment Zones.[62] Certain federal, state, and local incentives are authorized to induce private businesses to invest in these enterprise zones. The program's state incentives include:

- Jobs credit against corporate income and state sales taxes for wages paid to new employees who are either residents of an enterprise zone or participants in a welfare transition program, up to 45 percent of wages paid for two years.
- Corporate income tax credit on ad valorem (property) taxes paid on new, expanded, or rebuilt businesses, up to $50,000 annually for five years.
- Sales tax refund on the purchase of building materials and business equipment. The amount of the refund is the lesser of 97 percent of the sales taxes paid or $5,000, or, if 20 percent or more of the business's employees reside in an enterprise zone, the lesser of 97 percent of the taxes paid or $10,000.
- Sales tax exemption of 50 percent for electrical energy used in an enterprise zone, if the municipality in which the business is located has passed an ordinance to exempt the municipal utility taxes on such business.

Analysis and Findings…
For a number of reasons, the Enterprise Zone Program produces a negative return-on-investment to the state. Most importantly, previously taxable activity has been converted to non-taxable activity. Further, to the extent the state funds supporting the incentive could have been more productively spent elsewhere and the business activity would have occurred anyway, the state actually foregoes revenues beyond the direct cost of the incentives.

The first reason relates to program purpose and design. Whereas most of the other programs were developed to induce business expansion or location to the state, the Enterprise Zone program has a more narrow purpose: to induce investment in designated severely distressed areas within the state and provide jobs to area residents. The program primarily captures or shifts existing economic activity from other in-state locations to the zone rather than inducing new economic activity.

This assumption is incorporated into the methodology currently used by the Revenue Estimating Conference (REC) to estimate the fiscal impacts on legislation that creates new Enterprise Zones or

---

[60] Sections 290.001 – 290.016, F.S. Unless reauthorized, the program is scheduled for sunset in 2015.
[61] *See* Department of Economic Opportunity, Bureau of Economic Development, Division of Community Development. *Enterprise Zone Program Annual Report, 2012*. Tallahassee, Florida.
[62] These federal programs are scheduled to expire in 2013.

expands existing Enterprise Zone boundaries. The REC assumes that economic activity in an Enterprise Zone, absent the formation of the zone, would have otherwise occurred within the zone or somewhere else in the state. Existing business activity (and any future investments by these businesses) is captured in a designated geographic area when local governments establish or change zone boundaries, or when in-state businesses move into the zone. These actions do not increase the total economic activity within the state.[63]

Research from other states supports the REC's assumptions. A 2005 Policy Brief prepared by the Minnesota House of Representatives Research Department that reviewed empirical research found the establishment of Enterprise Zones may result in a shift in employment growth to the zone rather than add overall employment within the region, as employers seek to take advantage of zone benefits.[64] This conclusion was echoed in a 2013 review of California's Enterprise Zone program:

> "Most rigorous research has found that Enterprise Zones do not create a net increase in jobs or increase the rate of job creation…Even if an Enterprise Zone results in more job growth in a particular locality, it is likely that some of the jobs were shifted from other parts of the region or state."[65]

The Enterprise Zone concept was developed in the United Kingdom.[66] Recent research regarding their Enterprise Zone program supports the conclusions above. Larkin and Wilcox found that there is evidence to suggest that many of the businesses that benefited from locating in Enterprise Zones were not new firms, but simply firms that had relocated from other areas.[67] Wainwright's research corroborated these findings and suggested that designation of new Enterprise Zones "will undoubtedly result in a transfer of value from the surrounding area as existing businesses, occupiers and investors simply attempt to take advantage of the available tax allowances and reliefs."[68] Sissons and Brown,

---

[63] In 2010, EDR was asked to review the methodology used by the REC, and concluded after a literature review and property tax analysis on the effectiveness of state Enterprise Zone programs that there was no conclusive evidence disproving the REC assumption. See "Literature Review and Preliminary Analysis of the Impact of Enterprise Zones on State & Local Collections" prepared by the Office of Economic and Demographic Research, February 2010.

[64] Don Hirasuna and Joel Michael, "Enterprise Zones: A Review of the Economic Theory and Empirical Evidence," Minnesota House of Representatives Research Department (January 2005): 13.
Minnesota Office of the legislative Auditor. "Evaluation Report: JOBZ Program" (February 2008)

[65] "California's Enterprise Zone Program" Legislative Analyst's Office presentation to the Senate Budget and Fiscal Review Subcommittee No. 4 on State Administration and General Government (May 9, 2013): 6.
Also see Fisher and Peters, "Tax and Spending Incentives and Enterprise Zones," *New England Economic Review*, (March/April 1997): 127.
Also see Hanson and Rohlin's 2010 review of the Federal Empowerment Zone program, where they found a positive and statistically significant effect of the federal Enterprise Zone tax incentive program on attracting new establishments. However, they acknowledge that their findings "ignore any displacement and existing establishment effects that may occur" as a result of the incentive and that "it is possible there are substantial displacement effects of the program in other areas. Andrew Hanson and Shawn Rohlin, "Do Location-Based Tax Incentives Attract New Business Establishment?" *Journal of Regional Science* (2010): 18, 22.

[66] John Engberg and Robert Breenbaum, "State Enterprise Zones and Local Housing Markets" *Journal of Housing Research*, Vol 10, Issue 2 (1999): 164.
Don Hirasuna and Joel Michael, "Enterprise Zones: A Review of the Economic Theory and Empirical Evidence," Minnesota House of Representatives Research Department (January 2005): 7.

[67] Kieran Larkin and Zach Wilcox, "What Would Maggie Do? Why the Government's policy on Enterprise Zones needs to be radically different to the failed policy of the 1980s." *Centre for Cities* (February, 2011): 7.

[68] Simon Wainwright, "Enterprise Zones: Do they created or transfer value?" *Journal of Urban Regeneration and Renewal*, Vol. 5, 2. (2012): 130.

citing information compiled by the Department for the Environment, report that 80 percent of jobs created by Enterprise Zones in the UK from 1980 through 1987 were displaced from other areas.[69]

This transfer or redirection of investments and economic activity is also evident in Federal Empowerment Zones. Like Florida's Enterprise Zone program, the federal program offers job tax credits and other incentives for capital investments in designated economically distressed areas.[70] Hanson & Rohlin suggest that the gains in federal zones are at the expense of "neighboring and economically similar areas...both in terms of the number of establishments located in these areas and employment at local establishments…" and the losses are "especially strong in the retail and services industries."[71]

It is unlikely that zone incentives alone are sufficient to induce relocations to the state. Peters and Fisher argue that when compared to wages, an important location consideration, zone incentives were:

> "…so small, in fact, that even quite limited local variation in wage rates could easily wipe out the business income advantages conferred by incentives. Thus our non-econometric evidence suggests that it is likely that zone incentives influence business location and investment decisions only in exceptional circumstances."[72]

To the extent that Enterprise Zone incentives are an inducement, Florida has little or no competitive advantages when compared to other states. In FY 2012-13, Florida awarded $17.6 million in state incentives for the entire Enterprise Zone program, or $.91 per capita.[73] Thirty-six of the 50 states have Enterprise Zone programs, of which seven are local only (no state incentives available) or primarily local programs. EDR was able to obtain program cost information for 25 of these 29 states. Only six states have lower per capita program costs.

It has also been argued that "but for" the Enterprise Zone program incentives, in-zone businesses would not have expanded their economic activity. Research addressing this issue cast doubt on this assertion as well. Peters and Fisher conclude that "the majority of the recent literature comes down on the side of Enterprise Zone having little or no impact on growth" and find through their econometric study of 65

---

[69] Andrew Sissons and Chris Brown, "Do Enterprise Zones Work?" *The Work Foundation* (February 2011): 5.

[70] This soon to expire program provides several different incentives, including wage credits, tax deductions, bond financing, and capital gains liability reduction.

[71] Andrew Hanson and Shawn Rohlin, "Do spatially targeted redevelopment programs spillover?" Forthcoming in *Regional Science and Urban Economics* (2012): 26.
Further, the study found that "(g)iven the …program uses tight geographic targeting in densely populated urban areas, establishments can benefit by literally moving across the street … to enjoy the benefits of the program without incurring relocation costs associated with moving further from a customer base, employees, or losing other advantages of the immediate location…Spillovers caused by relocation suggest a zero net effect from the program; however, some of our estimates suggest a negative net effect of the program. Negative net effects could be the result of spillovers causing job (and establishment) destruction in neighboring and similar areas, possibly through increased competition from establishments subsidized by the EZ program."

[72] Alan Peters and Peter Fisher. *State Enterprise Zone Programs: Have They Worked?* (Kalamazoo: Upjohn Institute for Employment Research, 2002): 157 - 158.

[73] See **APPENDIX 3**. Figures in this table do not include local incentives. In Florida, local incentives were reported to be $56.6 m in local fiscal years 2010-12.
Observers may note that annual state program costs have been as high as $67.6m in FY 2009-10, due primarily to sales tax refunds for building materials associated with condominium developments. See OPPAGA Report No. 11-01, "Few Businesses Take Advantage of Enterprise Zone Benefits; the Legislature Could Consider Several Options to Modify the Program" (January 2011): 6. and "Florida Enterprise Zone Program Annual Report, 2010" Office of Tourism, Trade and Economic Development (March 2011): 10. In 2010, the Florida Legislature repealed the authority for such developments to claim this refund. *See* s. 9, ch. 2010-147, Laws of Florida.

zones in 13 states (including Florida) that Enterprise Zone "incentives have no discernible positive effect on new economic activity. In fact, a very small negative effect is discernable in all our models." Finally, "…enterprise zones are not effective engines of economic expansion."[74]

Subsequent research corroborates these findings. In a review of California and Florida Enterprise Zone programs from 1986 to 1990, Elvery concluded that it was "likely that most of the tax credits paid by the states subsidized hiring that would have taken place regardless" of the Enterprise Zone incentives.[75] In its 2010 review of the effectiveness of Enterprise Zone programs nationwide, the Legislative Analyst's Office of the California Legislature found that "most research indicates the that area programs have little if any impact on the creation of new employment…" and that the granting incentives "may result in revenue losses that are significant relative to the benefits received."[76] Peters and Fisher found in their comprehensive review of state enterprise zone programs that the impact of enterprise zone benefits on state and local government revenues was likely to be negative. This conclusion is based in part on the research showing the incentives have very little impact on firm location and job growth, so that most of the amount of the incentive is wasted.[77]

While there may be individual exceptions, it is probable that general in-zone business expansion is due to the same factors that affect other businesses – reflecting the trend rate of growth and general business cycles.[78]

Finally, EZ program incentives are available to Florida market or resource dependent businesses. Because these business activities would have been undertaken somewhere in the state or local area absent the incentive, there is "no net gain in economic activity or jobs or income."[79]

The weight of this evidence (summarized below) leads to a conclusion that the EZ program does not produce a positive return on investment to the state. This analysis assumes:

- Gains in employment and capital primarily are the result of captured or redirected (shifted) in-state economic activity;
- EZ incentives are an insufficient inducement to relocate to Florida;

---

[74] Alan Peters and Peter Fisher. *State Enterprise Zone Programs: Have They Worked?* (Kalamazoo: Upjohn Institute for Employment Research, 2002): 166, 185, 190.
See also Alan Peters and Peter Fisher. "The Effectiveness of State Enterprise Zones." *Employment Research Newsletter*, Vol. 9, No. 4 , Upjohn Institute for Employment Research, Kalamazoo, MI (2002): 4.
[75] Joel Elvery, "The Impact of Enterprise Zones on Resident Employment: An Evaluation of the Enterprise Zone Programs of California and Florida." Maxine Goodman Levin College of Urban Affairs, Cleveland State University (September, 2007): 21.
[76] "California's Enterprise Zone Program" Legislative Analyst's Office (LAO) presentation to the Senate Revenue and Taxation Committee, March 10, 2010. The LAO is overseen by the Joint Legislative Budget Committee (JLBC), a 16-member bipartisan committee of the California Legislature.
See also Alan Peters and Peter Fisher, "The Effectiveness of State Enterprise Zones." *Employment Research newsletter*, Vol. 9, No. 4, Upjohn Institute for Employment Research. Kalamazoo, MI (2002): 4.
[77] "Alan Peters and Peter Fisher. *State Enterprise Zone Programs: Have They Worked?* (Kalamazoo: Upjohn Institute for Employment Research, 2002): 121, 222.
See also Alan Peters and Peter Fisher, "The Effectiveness of State Enterprise Zones." *Employment Research newsletter*, Vol. 9, No. 4, Upjohn Institute for Employment Research. Kalamazoo, MI (2002): 4.
[78] The "trend rate of growth" is the average sustainable rate of growth over a period of time, or the underlying economic growth (in response to population increases, growth in the labor force, capital growth, increases in productivity, technological advances that increase efficiency, etc.) absent business cycles.
[79] Peter S. Fisher, *Corporate Taxes and State Economic Growth, Policy Brief of the Iowa Fiscal Partnership,* Revised February, 2012: 4.

- In-zone expansion is not attributable to EZ incentives; and
- Many of the EZ businesses are Florida market or resource dependent.

Scenario Assuming No Property Appreciation…

This scenario assumes there is no positive economic gain to the state and no detectable property appreciation within the zones relative to surrounding areas. No new output or investment was attributed to EZ businesses in the model. Only the state payments to the EZ businesses were included, which totaled approximately $115 million in the review period. This scenario produced a negative return-on-investment of -.040 to the state and decreased Florida's GDP in all three years because the incentive dollars were redirected from more productive state activities.

Scenario Assuming Property Appreciation…

This scenario assumes there is some positive economic gain associated with property appreciation in the Enterprise Zones. The approach uses increases in local property tax revenue attributable to EZs to measure an incidental benefit to the state.[80]

In 2010, EDR analyzed whether the EZ program was effective in eliminating conditions of slum and blight within the zone, as measured by changes in property values. EDR found that the "analysis of property values in Hardee, Hernando, and Sarasota enterprise zones from 1999 to 2004 did not support a conclusion that enterprise zones have a consistent, direct and quantifiable impact on property values."[81]

In 2013, EDR conducted a follow-up study using property tax data from 1999 through 2012 (See **APPENDIX 4**). The report reviewed the impact that Enterprise Zones may have on property values over a longer period. Using the same three zones, the analysis looked at the differential growth rate between the parcels in the Enterprise Zone and parcels outside the Enterprise Zone located within a 2-mile buffer. It found that the differential growth rate changed favorably towards the EZ parcels in two of the three Enterprise Zones and narrowed in the third.

Property Appreciation Growth Rates		
	EZ Parcels	Outside Parcels
1999-2002	16.92%	28.35%
2003-2012	22.74%	12.25%

EDR used data from the report and assumed similar differentials for all zones during the review period. The result was an estimate of additional tax revenues accruing to the local governments of $123.6 million in FY 2009-10, $171.2 million in FY 2010-11 and $151.0 million in FY 2011-12.

The millage rates were held constant in the analysis. This assumption allowed the rise in property appreciation to be captured by the local governments through additional revenue. A fluctuating millage

[80] Nationally, at least two studies have addressed the property tax issue. In their 1996 analysis of the Urban Enterprise Zone program in New Jersey, Boarnet and Bogart found that the program had no positive effect on municipal property values. Marlon Boarnet and William Bogart. "Enterprise Zones and Employment: Evidence from New Jersey" *Journal of Urban Economics* 40 (1996): 214.
In their review across 22 states, Engberg and Greenbaum found that, on average, EZ designation did not have an impact on the growth of housing values. John Engberg and Robert Breenbaum, "State Enterprise Zones and Local Housing Markets" *Journal of Housing Research*, Vol 10, Issue 2 (1999): 179.

[81] "Literature Review and Preliminary Analysis of the Impact of Enterprise Zones on State & Local Collections" prepared by the Office of Economic and Demographic Research, February 2010.

rate would have split the appreciation between additional local revenue and a lower tax liability per parcel. Only Enterprise Zones established on or before January 1, 2002 were included in EDR's estimate, which represents 91 percent of the Enterprise Zones by total square miles.

The Statewide Model had to account for additional impacts besides increased local government revenue, including the rise in property taxes. The rise in property taxes was accounted for by increasing taxes on capital. Taxes on capital were split between commercial and residential parcels.

The Statewide Model estimated that Florida GDP increased because of the additional local government spending. However, the result is still a negative ROI of -.053. Two important reasons account for this negative ROI. First, the impact of local government spending on state revenues is weak because local government spending is largely not taxable. Generally only the indirect and induced spending attributable to local government spending is taxable. Second, residential properties were negatively affected by the rise in property taxes. This reduces taxable consumer spending within the state.

Conclusion…

EDR's research found that that the state Enterprise Zone program produces a negative ROI. This analysis does not measure the impact of EZ incentives on the local economy which clearly would have had some benefit from the additional spending in the second scenario. In addition, local governments may have other criteria for evaluating the impact of the incentives on their community.[82]

EDR's assessment regarding the Enterprise Zone program is consistent with recent evaluations of similar programs in other states. [83] In response, some states have considered or implemented reforms, with some significantly reducing or eliminating program benefits. [84]

---

[82] As noted earlier, 36 of the 50 states have EZ programs, of which seven are local only (no state incentives available) or primarily local programs.

[83] *For evaluations regarding cost effectiveness of respective state enterprise zones, see:*

CA: David Neumark and Jed Kolko, "Do Enterprise Zones Create Jobs? Evidence from California's Enterprise Zone Program" NBER Working Paper Series (December 2008, Revised January 2010)

Budget Brief from the California Budget Project, *Dollar for Dollar: California's Enterprise Zone Program Falls Short* (June, 2013)

CO: Colorado Enterprise Zone Review Task Force (2012) Office of Economic Development and International Trade (November, 2012).

IA: Colin Gordon, "EZ Money: Assessing Iowa's Enterprise Zone Program" Iowa Fiscal Partnership (April 2008) State of Iowa Tax Credit Review Report, December, 2009, by the Iowa Department of Management.

MD: *See Baltimore Sun,* "Baltimore's sprawling enterprise zone. Our view: What started as small and directed has gotten large and amorphous, but city enterprise zones remain a useful tool for promoting economic development." September 01, 2013.

Scott Calvert and Jamie Smith Hopkins, "Most city neighborhoods get little in enterprise tax breaks; Enterprise Zone program was created to bring development, jobs to poor areas," *Baltimore Sun*, August 26, 2013.

Scott Calvert and Jamie Smith Hopkins, "Enterprise zone tax breaks flow to Baltimore waterfront, other prosperous neighborhoods; Schaefer launched program 30 years ago to aid poor areas, " *Baltimore Sun*, August 24, 2013.

MN: Minnesota Office of the Legislative Auditor. "Evaluation Report: JOBZ Program" (February, 2008)

NJ: Delta Development Group, Inc. and HR&A Advisors, Inc., *New Jersey Urban Enterprise Zone Program Assessment* (February 18, 2011)

NY: Citizens Budget Commission, *It's Time to End New York State's Empire Zone Program* (New York: December 2008)

AT Kearney, *Delivering on the Promise of New York State: A Strategy for Economic Growth and Revitalization*, Prepared for Empire State Development, 2007.

EDR research indicates that as of 2013, 36 of the 50 states have Enterprise Zone programs, of which seven are local only (no state incentives available) or primarily local programs. Since 2009, eight of the 30 state programs have contracted (either by reducing program benefits to businesses or restricting benefit eligibility – NY, IL, MI, NJ, MO, LA, IA & RI) and six programs were repealed or sunset (AR, AZ,CA, KY, KS & NB). In 2013 the Texas Legislature reduced program benefits, but the Governor vetoed the bill instituting the changes.

[84] Since 2008, eight of the 29 state Enterprise Zone programs have contracted (reduced benefits or restricted benefit eligibility), six programs were allowed to sunset or were repealed, 1 program was sunset and subsequently reauthorized, and in 2012 one state passed legislation to reduce program benefits, but the State Governor vetoed the legislation. *See* **APPENDIX 3**: State Enterprise Zone Programs. In addition, the Keystone Opportunity Zone program in Pennsylvania sunset in 2011 and then was reauthorized and expanded in 2012.

APPENDIX ONE

Assessing the "But For" Assertion: A Literature Review

Economic development incentives are public subsidies intended to induce an economic activity or capital investment by a private business in a jurisdiction in which such activity or investment would not otherwise take place.[1] The necessity of offering such incentives has been the subject of much research.

Some incentive proponents assert that "but for" the incentive, business expansions or relocations would not have occurred in their area – the incentive is the primary or the determining factor in business location decisions. Site selection and economic development professionals claim that incentives may tip the scales between competing sites when all other factors are relatively equal.

The following identifies attempts by other states to address the "but for" assertion and reviews the academic literature on the impact of state and local tax policy and incentives on business location decisions.

Florida Studies and the "But For" Issue...

In 2003, the Florida Senate Committee on Commerce, Economic Opportunities, and Consumer Services conducted a sunset review of the Florida's Qualified Target Industry (QTI) and Qualified Defense Contractor (QDC) Tax Refund Programs. Program recipients are eligible to receive awards based on the number of qualifying jobs and the average wage of their employees.

As part of this review, committee staff surveyed incentive recipients and local economic development organizations, asking how the QTI and QDC programs influenced business site selection and job creation. Out of the 183 surveys sent to active QTI businesses, 38 businesses responded. The report includes the following findings:

- Twenty QTI businesses reported that they probably or definitely would have located or expanded operations in Florida without the QTI incentives. Fifteen QTI businesses reported that they probably or definitely would not have located or expanded operations in Florida without the incentives. Nearly all of the responding businesses, 36, reported that they considered locating or expanding operations outside of Florida. Incentives were offered by other states to 20 of these 38 businesses.
- The most common reasons that incentives from other states were rejected were that the other locations lacked an adequate workforce, had personal income taxes, and offered smaller incentives. Other slightly less common reasons for rejecting incentives offered elsewhere included high labor costs, higher corporate income taxes, and poor climates.
- A survey was also sent to 66 local economic development organizations (EDOs). Committee staff received 31 responses to this survey. The responses from the EDOs differed significantly from the responses from QTI businesses regarding the effectiveness of the program in attracting businesses to this state. According to 24 of the 30 EDOs that responded to the issue, all or most of the QTI businesses in their communities would have located or expanded operations outside of Florida without the QTI incentives. The responses

[1] Poole offers an alternative definition: "Programs with budgeted or authorized public dollars that are directly or indirectly invested in activities of businesses." *See* Kenneth Poole, George A Erikcek, Donald Iannone, Nancy McCrea, and Pofen Salem, *Evaluating Business Development Incentives*. A report prepared for the U.S. Department of Commerce, Economic Development Administration, EDA Project #99-07-13794, by the National Association of State Development Agencies, W.E. Upjohn Institute for Employment Research, and The Urban Center, Cleveland State University. (August, 1999): 10-13.

from EDOs also differed slightly from the responses from QTI businesses as to why QTI businesses rejected locations in other states. According to the survey results, the most common reasons QTI businesses rejected locations in other states, in order of frequency, were that other locations had a low quality of life, high labor costs, personal income tax, and were too distant from customers.

- According to 21 EDOs, the most common reason that a business that would have qualified for QTI incentives rejected a Florida location was for larger incentives elsewhere. Eleven EDOs reported that their communities lacked adequate infrastructure, such as sewer, water, electricity, and telecommunications. Six EDOs reported that their communities lacked adequate transportation facilities, such as seaports, airports, highways, and rail systems.[2]

The report concluded that:

> "(A)lthough many businesses participating in the QTI and QDC programs would have located in this state anyway, the programs do encourage the creation or retention of some jobs."[3]

As part of the required evaluation of seven incentive programs in 2013, OPPAGA conducted a survey or incentive recipients. OPPAGA asked recipient businesses to gauge the influence of the state incentives on their decision to expand or relocate to Florida with five questions. Seventy-three businesses responded to the survey, with 51 to 56 responding to the individual questions.

The survey indicated that state incentives were the most important factor affecting their location decision. However, 38 percent of respondents stated they *definitely* or *probably* would have considered locating, expanding or remaining in Florida if state incentives were not available. Thirty-five percent responded they did not know. Only 20 percent responded that state incentives were *the key decision factor* in their company's final site location decision. Nearly half of the survey respondents were existing Florida businesses expanding their operations.

To some degree, Florida law addresses the "but for" condition for four of its incentives in the application or review process. Some applications require a brief statement concerning the applicant's need for tax refunds or to explain the role the incentive will play in its decision to locate or expand in this state.[4] For Quick Action Closing Fund awards, the Florida Department of Economic Opportunity (DEO), the entity responsible for awarding the incentive, must determine the incentive is "an inducement to the project's location or expansion in the state."[5] Although not under review in this cycle, DEO must review and evaluate the impact of a proposed Qualified Defense & Space Flight Business Tax program refund has "…on the viability of the project and the probability that the project will occur in this state if such tax

---

[2] Florida Senate Committee on Commerce, Economic Opportunities, and Consumer Services, "Review Of Qualified Target Industry And Qualified Defense Contractor Tax Refund Programs" Interim project Report 2004-115 (December 2003): 5.

[3] Ibid., at 1.

A 2005 Collins Center for Public Policy report on the QTI program, commissioned by EFI, referred to the findings in the Senate's "sunset" review. The report indirectly addressed the "but for" issue, and concluded that "the QTI program is a useful competitive tool when combined strategically with larger state and local economic development programs and when administered judiciously." See Collins Center for Public Policy, Inc. & Global Insight, Inc. *Florida Qualified Target Industry Tax Refund Program: An Independent Analysis* (February 2005): 40, 2.

[4] Qualified Defense & Space Flight Business Tax Refund, s. 288.1045(3)(f)7., F.S.; Qualified Target Industry Tax Refund Incentive, s. 288.106(4)(a)7., F.S.; High-Impact Sector Performance Grant, s. 288.108(5)(a)5., F.S.; and Innovation Incentive Program, s. 288.1089(3)(i), F.S.

[5] Quick Action Closing Fund, s. 288.1088(2)(c), F.S.

refunds are granted to the applicant, taking into account the expected long-term commitment of the applicant to economic growth and employment in this state."[6]

To implement these requirements, DEO staff includes the following questions in their evaluation of applications for all incentives administered by the department:

- What role will the incentive(s) play in the business unit's decision to locate, expand, or remain in Florida?
- How will the incentive dollars be used by the business?
- What other cities, states, or countries are being considered for this project?
- What advantages or incentives offered by these locations do you consider important in your decision?
- What advantages or disadvantages offered by the proposed Florida location do you consider important in your decision?
- Indicate any additional internal or external competitive issues impacting this project's location decision.[7]

In addition, the Department of Transportation's application for an Economic Development Transportation Fund grant requires applicants to submit a letter from the company with a statement attesting that "the project will not occur in Florida without the proposed transportation improvements and only one Florida site is under consideration."[8]

To the extent these application requirements are met, and the responses to these questions are judiciously considered in the evaluation of awards, the "but for" condition is largely addressed in the award of Florida's economic incentives.

Other State Studies and the "But For" Issue...

Several state legislatures have commissioned studies to evaluate the effectiveness of their economic development incentive programs. Some of these studies also attempted to address the "but for" issue – to determine whether the incentives are the primary, or at least the determining factor in business decisions to expand in or relocate to their state.

In 1999, Cleveland State University's Urban Center prepared a comprehensive assessment of the state's economic development programs for the Ohio Economic Development Study Advisory Committee and the Ohio Office of Budget and Management. As part of their review of business location and investment behavior, they surveyed nearly 400 Ohio firms – half of which had received incentives – for their perspective on Ohio's incentive programs. From the 61 responses, they conclude that the incentives "have a contributing, but not a driving or determining, effect upon business investment and location decisions." In addition, "many respondents showed a lack of knowledge about these programs."

The report also identifies the problems with requiring the "but for" condition to be satisfied, including:

---

[6] Qualified Defense & Space Flight Business Tax program, s. 288.1045(3)(f)7., F.S. Also, the QDS incentive is one of 3 state EDIs that may be used for "retention" projects. Until 2008, the Qualified Defense & Space Flight Business Tax program was known as the Qualified Defense Contractor Tax Refund program. *See* s. 1, ch. 2008-89, Laws of Florida.
[7] See "General Project Overview" on file with EDR.
[8] See "Economic Development Transportation Fund Application Instructions" on file with EDR.

- The rationale is impossible to prove in a truthful sense, as the argument basically boils down to a government official's willingness to take a business executive's word that government investment in the project is absolutely necessary to project success.
- The condition forces the provider and recipient to exaggerate the benefits of the project.
- The requirement is a far too general and simplistic justification for government action.

Instead of employing the "but for" condition for awarding incentives, the report recommends it be replaced with an eight-point justification framework addressing limited circumstances.[9]

In 2007, North Carolina's Joint Select Committee on Economic Development Incentives examined the state's economic incentive programs, and addressed the role of incentives in company location decisions. A survey of businesses receiving a prominent state corporate income tax credit found that incentives ranked low on the list of priorities for business executives. Furthermore,

> "62% of surveyed NC executives were unaware his/her company received an incentive. This indicates that incentives in the form of tax credits have little impact on business decisions if the majority of executives are unaware of incentive receipt."[10]

Subsequent case studies with 56 companies revealed the state's corporate income tax credit had little impact on the company's decision to engage in economy growth or expansion.[11]

Kentucky, Missouri, and Vermont have implemented specific policies to address the "but for" assertion. In the 2012 review of Kentucky's economic development incentives, it was reported that many of the incentive programs offered by the state require incentive recipients:

> "…to sign a 'but for' agreement indicating that they would not have come to Kentucky 'but for the incentive.' Nevertheless, the true impact of programs is usually not known."[12]

The Missouri BUILD incentive program is designed to reduce infrastructure and equipment expenses related to large business expansion or relocation projects. To qualify, the project must meet the "But For" Test: the Missouri Department of Economic Development and the Missouri Development Finance Board" must determine that the program is a material factor in the company's decision to initiate the project, and this is certified by the business."[13]

---

[9] The Urban Center, Maxine Goodman Levin College of Urban Affairs, Cleveland State University, *An Assessment of the Costs, Benefits, and Overall Impacts of the State of Ohio's Economic Development Programs*. (May 28, 1999): 258, 62, & 236.

[10] Brent Lane and Jason G. Jolley, "An Evaluation of North Carolina's Economic Development Incentive Programs: Summary of Analysis, Findings and Recommendations," Prepared for the North Carolina General Assembly, Select Committee on Economic Development Incentives. UNC Center for Competitive Economies (January 21, 2009): 14.

[11] Ibid., at 16.

[12] Anderson Economic Group, LLC. *Review of Kentucky's Economic Development Incentives* (June 11, 2012): 98.

[13] See Sections 100.700 - 100.850, *RSMo*. Section 620.017 1.(3), *RSMo*., requires that the EDI contracts state why the incentive is needed.
The 2010 Missouri Tax Credit Review Commission adopted a global recommendation for improving Missouri's toolkit by replacing various economic development tax credit programs with one flexible, unified program. One feature of this unified program would include a financial "but for" requirement similar to that in the current Missouri BUILD program, whereby the project would need to demonstrate that without state assistance to fill a financing gap, the project would otherwise not occur. In 2013, the Missouri Legislature enacted HB 184, which consolidated four unique economic incentive programs into one, and included the following restriction in newly created s. 620.210 6., *RSMo*:

> 6. No benefits shall be available under this section for any qualified company that has performed significant, project-specific site work at the project facility, purchased machinery or equipment related to the project, or has publicly

Vermont law requires project applications for Vermont Employment Growth Incentive (VEGI) program be screened to assess whether the proposed "economic activity would not occur or would occur in a significantly different and significantly less desirable manner without the incentive."[14] A company official (one of the application signatories) is also required to address the "but for" assertion in a public meeting of the Vermont Employment Progress Council, the entity responsible for approving VEGIs.[15]

In 2011, Virginia's Joint Legislative Audit and Review Commission (JLARC) reviewed the effectiveness of economic development incentive grants available in Virginia, and addressed the impact incentives had on business decisions regarding site selection. The report finds that the "best available information in the (research) literature suggests that approximately ten percent of location decisions are swayed by financial incentives." However, the report suggests this rate is higher in Virginia because the state offers discretionary grants which are more desirable to businesses rather than tax credits, and has higher award levels than other states. Grant recipients indicate that incentives are usually the primary determinants of their site selection decision, typically toward the end of the process.[16]

To address the "but for" condition, the report notes that Virginia Economic Development Partnership staff screen projects to ensure the grants are only awarded to projects where the incentive "is necessary." One aspect of the screening process requires asking the applicant what other states they are considering in order to gather information on the incentives being offered. From this information, the staff determines whether the award should be granted or adjusted.[17] Notwithstanding these efforts, the report acknowledges that it is "difficult to quantify with much precision the extent to which grants sway business decisions."[18] A survey of 12 incentive recipient businesses and 25 local economic developers was inconclusive.[19]

Review of Academic Literature...

Until the 1990s, much of the academic research shared a common perspective regarding the impact of tax policy, and by implication economic development incentives, on business expansion and relocation decisions: tax policy may matter, but not nearly as much as production-related factors. Simply put:

> "Relative to other costs of doing business, state taxes are simply too small to have a major influence on business decision-making. Other factors with far greater impacts on costs, accessibility of raw materials and markets, and regulatory stringency, are far stronger determinants of location decisions and of economic growth. The literature on economic development incentives is filled with examples of businesses acknowledging that their decisions were not guided by the available state fiscal incentives. Often business decision makers were unaware of the incentives until after their decision; in other cases, the incentives were candidly acknowledged as what one executive called, **"**a little extra cream on top." At best, incentive

---

announced its intention to make new capital investment at the project facility prior to receipt of a proposal for benefits under this section or approval of its notice of intent, whichever occurs first.

[14] Vermont Economic Progress Council, *Vermont Employment Growth Incentive Authorization Criteria*, Version 4.2012.

[15] Vermont Economic Progress Council, *Vermont Employment Growth Incentive Authorization Criteria*, Version 4.2012. *Also see 32 VSA* ss. 5930a(c)

[16] Virginia Joint Legislative Audit and Review Commission, *Review of State Economic Development Incentive Grants,* Senate Document No. 8 (November 2012): 25-32.

[17] Ibid., at 66.

[18] Ibid., at 32-33.

[19] Ibid., at 25.

> packages only become relevant in breaking a tie between sites that do not differ significantly on more important dimensions."[20]

Pomp elaborates on the influence of tax policy on business decisions:

- First, innumerable factors are important to a business in its decision about where to locate. Depending on the type of business at issue, the location decision can be influenced by plant or site availability, access to financing, access to and cost of transportation, quality and cost of labor, proximity to markets, cost of utilities, proximity to supplies, proximity to other company facilities, the regulatory environment, the quality of a state's schools, colleges, and universities, the cost of housing, the level and quality of public services, and the range of other amenities that enter into the general quality of life offered.
- Second, taxes are one of the many costs of doing business and the magnitude of the other costs may easily swamp the amount of state taxes involved.
- Third, state and local tax payments are deductible for purposes of the federal corporate income tax. The effect of this deduction, the so-called federal offset, is to reduce both the absolute burden of state and local taxes and differences in burdens among the states.
- Fourth, differences in state and local taxes may reflect differences in the level and quality of state and local public goods and services, which also affect the business location decision. Low taxes are not necessarily attractive to businesses if they mean that the firm will have to supply, at its own expense, what is supplied through the public sector in other states or other jurisdictions. Furthermore, if low taxes mean inferior schools, a state may lack the educated and literate labor force that is essential to certain types of businesses. Of course, not all public goods and services are equally important to businesses.
- Fifth, to the extent that tax rate differentials are capitalized, their impact will be reduced. For example, low property taxes in one jurisdiction might mean that land sells there for a higher price than what it would sell for in another jurisdiction having higher property taxes. In other words, land located in a high-property-tax jurisdiction may sell for less than an equivalent parcel of land in a low-tax jurisdiction, assuming that differences in taxation are not reflected in differences in public services, which might also be capitalized.
- Sixth, most relocating companies plan to stay at their new site years longer than any group of elected officials is likely to be in office. Consequently, current tax levels, special concessions, or special features of the tax law may not be a reliable basis upon which to make a multimillion dollar investment. What one group of legislators might grant today by way of concession another might eliminate tomorrow, especially if financial conditions change significantly. Fiscal stability and predictability may be more important than special concessions.
- Seventh, a state tax incentive that is granted by way of incorporating a similar federal provision may have no impact on a firm's decision making if the future of the federal provision itself is in jeopardy.
- Eighth, state tax incentives may contain their own seeds of destruction. If incentives are effective at all, a state will gain only a short-lived advantage over other states because the latter can be expected to adopt similar ones.
- Ninth, some executives charged with the location decision may be uninformed about the existence of tax incentives.

---

[20] Peter D. Enrich, Saving the States From Themselves: Commerce Clause Constraints on Tax Incentives for Business, 110 *Harvard Law Review* (1996): 391- 392.

- Finally, there are relatively few footloose firms that can be affected by tax incentives.[21]

The influence of tax policy may be further diminished when additional non-production factors are considered. Financing tax incentives may divert public resources from funding public services, which may be of value to businesses and influence their expansion or relocation decisions. Ronald Fisher identified research indicating the positive effects of government spending – especially spending on transportation – on business activity, and by inference, business expansion.[22]

However, more recent studies note some shift in thinking regarding the relative influence of tax policy on business decisions. In their comparison of pre-1963 studies with more recent industrial location literature, Blair and Premis find that:

> "…the traditional location factors are waning somewhat in importance…(and) other locational factors more directly controllable by state and local governments are, at least, moderately important. Since they are controllable, these policy variables can be effective when other major locational variables are roughly equal among competing areas."[23]

They find that econometric studies in the 1980s show tax-expenditure variables to be important, as are production-related factors. However:

> "… (t)he effectiveness of specific subsidies or locational incentives has not been shown to be a particularly significant variable although incentives have been included in some measures of fiscal climate. The lack of strong econometric and survey evidence contrasts with the opinions of many policymakers that some development incentives are essential for a successful job creation effort. Perhaps the varieties of incentives are too complex to be captured by the econometric models or perhaps they are so widely offered that they cancel out." [24]

Econometric Studies...

By the 1980s, economists were attempting to measure the effect tax policy has on business decisions by using econometric studies focused on elasticity, a way to gauge the effect tax policy has on business decisions. Simply put, elasticity is a measurement of the effect of one economic variable on others. In this context, it describes the responsiveness of economic activity to changes in tax policy, including the award of economic development incentives. For example, if the elasticity of certain business activity to state and local business taxes is -0.2, then a 10 percent reduction in state and local business taxes will result in a two percent increase in employment or general business activity.

---

[21] Richard Pomp "State Tax Reform: Proposals for Wisconsin" *Marquette Law Review* (2004): 61-66.
Also see: Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives," *Journal of the American Planning Association*, Vol. 70, No. 1 (Winter 2004): 29; and
Greg LeRoy, "Trends in State Business Incentives: More Money and More Accountability," *Spectrum: The Journal of State Government*, Vo. 77, Number 1 (Winter 2004): 17.

[22] Ronald Fisher, "The Effects of State and Local Public Services on Economic Development" in the Proceedings of a Symposium on the Effects of State and Local Public Policies on Economic Development, *New England Economic Review*, March/April (1997): 53-82. See also, Sherry Jarrell, "Law and Economics of Regulating Local Economic Development Incentives," *Wake Forest Law Review*, (September 2006): 825-6.

[23] John P. Blair and Robert Premus, "Major Factors in Industrial Location: A Review." *Economic Development Quarterly* 1, 1 (February, 1987): 82.

[24] Ibid., at 83.

APPENDIX ONE

In 1983, Newman measured how improvements in state corporate income tax policy affected regional business growth, concluding that there was considerable support for "the argument that corporate tax rate differential(s) between states…have been major factors influencing the redistribution of industry toward the South."[25] In short, reductions in effective tax rates acted as an incentive for relocation.

Timothy Bartik, Senior Economist at the Upjohn Institute for Employment Research, has published widely on measuring the impact tax policy has on business behavior. In 1985, Bartik estimated the relationship between tax policy and business decisions on plant expansion, finding an elasticity of -.2 to -.3. He concludes from his research that "…state taxes affect business location, contradicting the conventional wisdom in the economic literature, although the tax effect is of modest magnitude."[26]

In research published in 1991, Bartik finds in 48 of the 57 studies conducted between 1979 and 1991, "some evidence of significant negative effects of state and local taxes on regional business growth."[27] Across states and metropolitan regions, state and local taxes had elasticities ranging from -0.1 to -0.6 on interregional business location decisions, and -0.1 to -0.3 for intrametropolitan decisions. From these studies, he calculated the long-run mean elasticity of local economic activity with respect to state and local taxes to be -.25.

In 1995, Phillips and Goss completed a meta-analysis of the research Bartik reviewed in his 1991 study, finding that their "results generally support the conclusions reached earlier by Bartik."[28] Consistent with Bartik's research, in 1997 Wasylenko reviewed 75 studies, considering the wide range of estimated interregional elasticities of economic activity with respect to taxes. He finds that "the review of the literature suggests that taxes have a small, statistically significant effect on interregional location behavior."[29] He suggests that the interregional elasticity is -0.2, but cautions that "all elasticity estimates must be viewed in the context of the state and its fiscal position vis-à-vis other states." In 2004, Peters and Fisher, by extension, link previous elasticity estimates regarding tax policy to the use of economic incentives, as does Bartik in 2009.[30]

---

[25] Robert J. Newman, "Industry Migration and Growth in the South" *The Review of Economics and Statistics,* Vol. 65, No. 1 (Feb., 1983): 76-86, 85.
[26] Timothy J. Bartik, "Business Location Decisions in the United States: Estimates of the Effects of Unionization, Taxes, and Other Characteristics of States" *Journal of Business & Economic Statistics*, Vol. 3, No. 1 (Jan., 1985): 19, 21.
[27] Timothy J. Bartik, "Who Benefits from State and Local Economic Development Policies?" (Kalamazoo: W.E. Upjohn Institute for Employment Research, 1991): 39, 43, 40.
Also see Timothy J. Bartik, "The Effects of State and Local Taxes on Economic Development: A review of Recent Research" (Kalamazoo: W.E. Upjohn Institute for Employment Research, 1992): 103, 105.
Timothy J. Bartik, "Jobs, Productivity, and Local Economic Development: What Implications Does Economic Research Have for the Role of Government?" *National Tax Journal*, vol. 47 (1994): 847–62.
Timothy J. Bartik, "Taxes and Local Economic Development: What Do We Know and What Can We Know?" Proceedings of the Eighty- Seventh Annual Conference on Taxation,. Charleston, SC: National Tax Association-Tax Institute of America (November 13, 1994): 102–106.
[28] Joseph M. Phillips and Ernest P. Goss, "The Effect of State and Local Taxes on Economic Development: A Meta-Analysis" *Southern Economic Journal,* Vol. 62, No. 2 (Oct., 1995): 329.
[29] Michael Wasylenko, "Taxation and economic development: the state of the economic literature," *New England Economic Review* (March, 1997): 49.
[30] Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives" *Journal of the American Planning Association*, Vol. 70, No. 1 (Winter 2004): 29.
Timothy J. Bartik, "What Works in State Economic Development?" In *Growing the State Economy: Evidence-Based Policy Options*, 1st edition, Stephanie Eddy and Karen Bogenschneider, eds. (Madison, WI: University of Wisconsin, 2009): 29.

In 2007, Bartik concludes that prior literature reviews suggest that the elasticity is between -0.2 and -0.3.[31] In 2012, Bartik used previously published elasticities to measure the probability that a widely-used, discretionary income tax credit for new job creation would be decisive in business location and expansion decisions. He finds the probability ranged between two percent and 24 percent. Bartik concludes that his seemingly low probability still produced a positive return on investment, due to the program design: the credits were available only for high-wage, export-based businesses, which resulted in a high multiplier effect.[32]

At least one state applied the evolving consensus on elasticities to its measurement of state-offered incentives. In its review of the JOBZ program, Minnesota's version of the Enterprise Zone, the Minnesota Office of the Legislative Auditor estimates that 21 percent of the jobs created in the zone were attributable to the program.[33]

Skepticism Regarding the Econometric Studies...

However, some researchers have expressed skepticism about the econometric research, criticizing both the methodology and the value of the research findings. Buss reviewed these studies—stating that because "methodological problems are pervasive…validity becomes a major concern," identifies their limitations and weaknesses, and offers compensation strategies, including the use of simulations in lieu of static models.[34]

McGuire is skeptical because of her own research on the subject—one study of which is included in Bartik's 1991 review—and the implications for recommendations to or conclusions by policy-makers:

> "With respect to the interstate and interregional studies, despite the number of studies with significant coefficients, I find it difficult to be convinced that taxes are an important factor in explaining differences in business location decisions and economic activity between states or regions. In part I believe the discrepancy between my conclusion and that of many other scholars of the topic is due to our different perspectives. I came to this topic through the tax-study, blue-ribbon-commission route. I have seen firsthand state policymakers grasping for straws. I simply do not think that the evidence allows us to comfortably advise lawmakers that reducing the corporate income tax rate or the personal income tax rate will revive a flagging state economy."[35]

Lynch critiques the research, minimizes the significance of the findings, and suggests they are subject to "misuse, misinterpretation, or misunderstanding" by proponents of incentives. He notes specifically that:

- The econometric studies fail to adequately take into account the interrelationship between taxes and public services.

[31] Timothy J. Bartik, "Solving the Problems of Economic Development Incentives." *In Reining in the Competition for Capital*, Ann Markusen, ed. (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2007): 106.

[32] Timothy J. Bartik and George Erickcek, (2012). "Simulating the Effects of Michigan's MEGA Tax Credit Program on Job Creation and Fiscal Benefits." Upjohn Institute working paper; 12-185, (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2012): 21.

[33] Minnesota Office of the Legislative Auditor, "Evaluation Report: JOBZ Program" (February 2008): 94.

[34] Terry F. Buss, "The Effect of State Tax Incentives on Economic Growth and Firm Location Decisions: An Overview of the Literature." *Economic Development Quarterly* 15:19-105 (2001): 95.

[35] Therese J. McGuire, "Do Taxes Matter? Yes, No, Maybe So." *State Tax Notes* (June 2003): 9.

- The studies suggest only small effects of taxes on economic activity—with the results of these studies often inconsistent with each other, not reproducible, and unreliable.
- The negative effects of state and local taxes that the econometric studies report are likely somewhat overblown. But, even if the findings of the econometric studies are not exaggerated, their results do not support the notion that state and local tax cuts and incentives can be counted on to create numerous jobs or to create jobs in a cost effective manner.
- Contrary to the assumption used by all the econometric studies, state and local taxes may be largely irrelevant to business investment decisions.
- And finally, the reported results may be meaningless because most of the studies are measuring their explanatory variable—tax burdens— inaccurately. Whenever an explanatory variable is misspecified, it is impossible to know if the econometric results accurately reflect the impact of the variable.[36]

Weiner echoes earlier criticisms of the research and notes that the "various attempts to replicate the studies" proved fragile. In addition, she states "it is unclear" how Bartik's findings can be applied to incentives, as they may be unique in design, are targeted at specific types of businesses or activities, and operate under different conditions.[37]

Jarrell, Shoesmith, and Robbins find that "(o)verall, the analytical approaches are so disparate that the findings offer little or no guidance to policymakers."[38] Wong notes in his review of the research on location decision studies that they "continue to produce conflicting conclusions about the impact of incentives."[39]

Conclusion…

Evaluating the extent to which economic development incentives are determinative in business location decisions is challenging. Survey research is instructive but may be unreliable, principally due to the unavoidable self-interest of respondents. The studies commissioned by various states identify the problems verifying the "but for" condition is satisfied. While econometric studies show, to some extent, the relationships between incentives and business behavior, there is some skepticism in the academic community regarding the usefulness and applicability. Finally, a review of the academic literature reveals a lack of consensus on the degree of influence that incentives have on business location decisions.

[36] Robert Lynch, "Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development" Economic Policy Institute, Washington DC (2004): 28.
[37] Jennifer Weiner, "State Business Tax Incentives: Examining Evidence of their Effectiveness" Federal Reserve Bank of Boston (2009): 18-19.
[38] Sherry L. Jarrell, Gary Shoesmith and J. Neal Robbins, "Law and Economics of Regulating Local Economic Development Incentives" *Wake Forest Law Review* (September 2006): 827.
[39] John D. Wong, "Strategic Analysis of Economic Development Expenditures by Kansas State Government and Five Surrounding State Governments: FY 1989 – FY 2007." Hugo Wall School of Urban and Public Affairs, Wichita State University (2007): 32.

APPENDIX TWO

DEO Legacy Model Methodology

The Department of Economic Opportunity uses an economic impact model to analyze the projected economic benefit over ten years for each applicant requesting state economic development incentives for a project. Pursuant to s. 288.061 (2), F.S., beginning July 1, 2013, the Department must use an economic impact model established by the Office of Economic and Demographic Research (EDR) to calculate the economic benefits for each project. According to s. 288.005, F.S., economic benefits are calculated as the gains in state revenue (taxes attributable directly to the business or those generated as a result of the increased economic activity rippling through the economy) as a percentage of the state's investment in the project. The state's investments are the various incentives offered to the business via tax refund, tax credit, or cash grant.

The Department's economic impact model has been in use many years dating back to the former Florida Department of Commerce. The model has undergone significant revisions, most recently in 2010, when EDR was tasked by the Florida Legislature to review and recommend changes to the model. As charged in s. 288.061 (2), F.S., a full methodological review was completed by EDR in 2013. Economic benefits are now calculated in a manner consistent with Return on Investment (ROI) calculations. Results prior to 2013 are expressed as a Payback Ratio and are not comparable with ROI.

The Department's economic impact model uses RIMS II multipliers, developed by the U.S. Department of Commerce's Bureau of Economic Analysis, to estimate the additional economic activity (induced and indirect effects) generated by the direct economic activity of the project (direct effects). For example, the construction of a new building will lead to an increase in production in industries that supply construction materials (indirect). Construction workers will spend their paychecks in the economy buying groceries and visiting dining and entertainment establishments (induced). These ripple effects are referred to as indirect and induced economic activity. By including indirect and induced activity, the impact analysis becomes more comprehensive than typical financial impacts developed by state government.

The estimate of the direct economic activity is provided by the applicant for state economic development incentives. The applicant provides estimates of the number and timing of net new jobs to be hired by the business, the average annual wage to be paid and the amount to be invested in capital such as facilities and equipment.

The number of net new jobs and the average annual wage are used to estimate the increased company output (direct sales). The RIMS II multipliers are applied to the direct sales estimate to calculate the resulting indirect and induced sales. Effective sales and corporate income tax rates are applied to the sales estimates where applicable to determine the anticipated sales and corporate income taxes to be paid by the applicant and other businesses.

In addition to the sales and corporate income taxes that are generated as a result of the project, sales tax revenue is also generated from the project's estimated capital expenditures for construction materials, machinery and equipment and from any indirect and induced economic activity resulting from the capital expenditures.

The model calculates ROI for the ten year period by dividing the total gains in state revenue by the total incentive dollars paid to the business. In addition, the model reports estimated indirect and induced jobs attributable to the economic development project.

APPENDIX THREE

State Enterprise Zone Programs

	State	Year of Source Data	State EZ Awards (nominal dollars)	2012 Population	Per Capita Expenditures	Recent Program Changes
1	Colorado	2010	99,331,160	5,187,582	19.15	Reviewed 2012, credit caps 2013
2	New York	2013	374,000,000	19,570,261	19.11	Program closed to new entrants
3	New Jersey	2013	133,000,000	8,864,590	15.00	Contracted 2010, by Exec. Order
4	Louisiana	2012	67,184,450	4,601,893	14.60	Contracted 2013
5	South Carolina	2011	65,725,292	4,723,723	13.91	
6	Illinois	2010	104,200,000	12,875,255	8.09	Contracted 2012
7	Minnesota	2013	36,940,000	5,379,139	6.87	
8	Wisconsin	2012	24,850,000	5,726,398	4.34	
9	Maryland	2012	20,400,000	5,884,563	3.47	
10	Maine	2014	3,550,000	1,329,192	2.67	
11	Utah	2009	7,600,000	2,855,287	2.66	
12	Michigan	2012	23,700,000	9,883,360	2.40	Contracted 2011
13	North Dakota	2012	1,582,827	699,628	2.26	
14	Iowa	2013	6,228,007	3,074,186	2.03	Contracted 2009 & 2012
15	Virginia	2011	16,200,000	8,185,867	1.98	
16	Pennsylvania	2013	24,200,000	12,763,536	1.90	Sunset 2011, reenacted 2012
17	Hawaii	2005	1,500,000	1,392,313	1.08	
18	Texas	2012	27,400,000	26,059,203	1.05	Gov. Vetoed Reduction 2013
19	FLORIDA	2013	17,622,659	19,317,568	0.91	Program under review 2013
20	New Hampshire	2012	825,000	1,320,718	0.62	
21	Indiana	2010	2,601,943	6,537,334	0.40	
22	Rhode Island	2012	383,503	1,050,292	0.37	Contracted 2011
23	Connecticut	2012	1,200,000	3,590,347	0.33	
24	North Carolina	2010	2,640,000	9,752,073	0.27	
25	Alabama	2012	809,103	4,822,023	0.17	
26	Massachusetts		information unavailable			
27	Mississippi		information unavailable			
28	Missouri		information unavailable			
29	Washington		information unavailable			

Notes:
The information presented in this table contains preliminary research on State Enterprise Zone programs.
From this research we find that thirty-six states have Enterprise Zone (EZ) programs, 7 of which are totally
or near-totally locally funded. [California (?), Georgia, New Mexico, Ohio, Oregon, Oklahoma, and Tennessee.]
Information relating to EZ programs in Washington, Massachusetts, Missouri, and Mississippi were unavailable at the
time of this publication. States not listed in this table do no not have state EZ programs.

The 25 of the 29 state programs with available information are represented in the table above.
Eighteen of the 25 states have a higher per-capita level of expenditures than Florida.

Kentucky, Nebraska, and Kansas state EZ programs were sunset or repealed in 2008, 2009, and 2011, respectively.
Arkansas, Arizona, and California previously had state EZ programs, but were replaced in 2003, 2011, and 2013, respectively,
with wage subsidy programs with broader purposes then historical EZ programs.
11/13/13

Florida's Enterprise Zones: Impact on Property Taxes

January 2014
Prepared by:
The Legislative Office of Economic and Demographic Research

APPENDIX FOUR

Introduction

In conjunction with the Legislative Office of Economic and Demographic Research's (EDR) 2013 evaluation of economic development programs, this report attempts to measure the impact of Enterprise Zones through changes in property values. Similar to a report issued by EDR in 2010, the study attempts to measure whether the Enterprise Zone program is effective in eliminating conditions of slum and blight within the zone as measured by changes in property values and whether the property values bring a positive return on investment to either local or state government.

2010 Analysis

In 2010, EDR was asked to review the methodology currently used by the Revenue Estimating Conference (REC) to place fiscal impacts on Enterprise Zone creation and expansion. The REC practice was to concentrate on impacts to the General Revenue Fund (GR). The REC assumed that economic activity in an Enterprise Zone would have occurred within the zone or somewhere else in the State absent formation of the zone. That is, businesses moving into the zone do not increase the total economic activity within the State.

The analysis began with a literature search to determine: (1) if the REC assumptions regarding economic activity and business location occurring irrespective of zone formation are flawed; and (2) if the REC methodology overlooks any significant areas that might impact state and/or local revenue collections. Results from the literature review guided the subsequent staff analysis.

The 2010 report concluded that the literature review did not provide any conclusive evidence that the current REC assumption about economic activity / business location within a zone was flawed. That is, there did not appear to be any inherent flaw in the REC method of calculating GR impacts. However, the review did reveal that possible impacts to property tax revenues have not been accounted for in the REC methodology[1].

To address this finding, EDR staff conducted an analysis to probe possible property tax impacts from Enterprise Zone formation.

Hypothesis

The research question in the 2010 analysis was whether Enterprise Zones are effective as mechanisms to eliminate or reduce slum and blight in these areas, as measured by changes in property tax values.

To accomplish this analysis, EDR assumed that there is an inverse relationship between property values (just valuation) and the degree of slum and blight present in Enterprise Zones. As slum and blight conditions increase, property values decrease and vice-versa. Therefore, comparing property values for a period prior to Enterprise Zone designation and for a period following zone designation may demonstrate a clear change in the degree of slum and blight.

Further, the longitudinal comparison of property values of parcels in Enterprise Zones, characterized by higher levels of slum and blight, to areas surrounding Enterprise Zones, characterized by lower levels of

[1] Property tax revenue primarily impacts local governments and has an incidental effect on budgeted revenues through the Florida Education Foundation Program which funds public schools.

slum and blight, might provide an indication of a lessening of slum and blight conditions as the zone matures.

Applying these assumptions and this methodology to select Enterprise Zones, it would be expected that property values in Enterprise Zones would generally be declining in the period prior to Enterprise Zone designation or, at the very least, that values in the zone would be increasing less than the areas surrounding the zone prior to designation. At some point upon zone designation or subsequently, this trend would slow, stop or reverse entirely, if the Enterprise Zone mechanism is effective.

Methodology

Based on this hypothesis, EDR set out to analyze three Enterprise Zones, one rural and two non-rural, existing in counties with different population sizes. The analysis compared property values in the years prior to the Enterprise Zone designation and the subsequent years after the establishment of the Enterprise Zone.

For analytical purposes, it was desirable to identify Enterprise Zones that were reasonably compact and contiguous. It was also important that the zones were not zones that had been previously designated as zones or were part of previously designated zones. The Enterprise Zones in Hardee (rural), Hernando (non-rural) and Sarasota (non-rural) were used for these reasons.

Each of these areas were designated Enterprise Zones on January 1, 2002.

Findings and Conclusions

According to EDR's hypothesis, in order to conclude that Enterprise Zones were successful in reducing or eliminating conditions of slum and blight as measured by changing property values, it would be expected that property values in Enterprise Zones would be increasing at a lesser rate than the area outside the Enterprise Zones in the period prior to the Enterprise Zone designation. After the designation, the property appreciation trend of lower growth would slow, stop or reverse entirely, if the Enterprise Zones mechanism is effective. Ideally, this pattern would be clearly identifiable in each of Enterprise Zones analyzed.

The analysis of property values in Hardee, Hernando, and Sarasota Enterprise Zones from 1999 to 2004 did not support a conclusion that Enterprise Zones have a consistent, direct and quantifiable impact on property values. However, there is some reason to believe that these zones were not the worst areas in the counties to begin with—at least in terms of property values. This would skew the results. Moreover, property values may not be the best short-term measure. Consistent with the literature review, the report suggested that it is possible that more recognizable impacts may emerge over time.

While this analysis did not clearly demonstrate that Enterprise Zones positively impact property values in Florida, it did not provide proof that Enterprise Zones are ineffective. Even so, without more concrete evidence, it was determined that there was no reason to include property tax impacts within fiscal analyses at that time.

APPENDIX FOUR

2013 Analysis

Recently enacted legislation directs the Office of Economic and Demographic Research (EDR) and the Office of Program Policy Analysis and Government Accountability (OPPAGA) to analyze and evaluate 18 state economic development incentive programs or tax exemptions over a recurring three-year schedule. The statute states that EDR is required to evaluate the "economic benefits" or return-on-investment of each program and to provide an explanation of the model used in its analysis and the model's key assumptions.

The Enterprise Zone program is scheduled for this review in 2013. In its evaluation of the Enterprise Zone program, EDR concludes that, for a number of reasons, the program is unlikely to have a positive return on investment to the state. However, the review recognizes that there may be other measures of program effectiveness.

The Enterprise Zone program differs from the other programs under review in that it is a non-discretionary entitlement program with limited reporting requirements. Unlike the other programs, there is no prequalification of "projects" by an executive agency and no pre-award evaluation of estimated economic benefit to the state. Program outputs necessary for evaluation through the statewide model are unavailable; as such information is not required to be submitted to qualify for individual program benefits. Given this constraint, EDR has elected to use another analytical approach to measuring the effectiveness of the Enterprise Zone program, which could indicate some measure of positive ROI -- at least to local governments in the form of increased property taxes.

Methodology

This analysis revisited the potential impact that Enterprise Zone designation has on property values within the zone, using property tax data from 1999 through 2012. This was an attempt to measure whether the Enterprise Zone program is effective in eliminating conditions of slum and blight within the zone, as measured by changes in property values relative to surrounding areas (See Charts 4, 5, 6). The study also examined whether this impact is at all indicative of any positive return on investment for either the local or state government.

Similar to the 2010 study, the 2013 study measured the change in property values for Enterprise Zones in three counties: Hardee, Hernando and Sarasota. The analysis compared property values before the Enterprise Zone designation and the subsequent years after the establishment of the Enterprise Zone.

However, the 2013 study introduced a new challenge: zone boundaries had changed for all three zones (See Charts 1, 2 & 3). To address this predicament; EDR measured the change in property values only for those parcels that were included in both the 2002 and the current zone boundaries. (Consequently, the total just values of parcels in each zone were lower than that identified in the 2010 study.) Table 1 shows the changes in value over the years for the three Enterprise Zones.

APPENDIX FOUR

Maps show parcels in the Enterprise Zones in 2003 (green diagonals) and 2010 (highlighted yellow) and the parcels that overlap.

Chart 1.

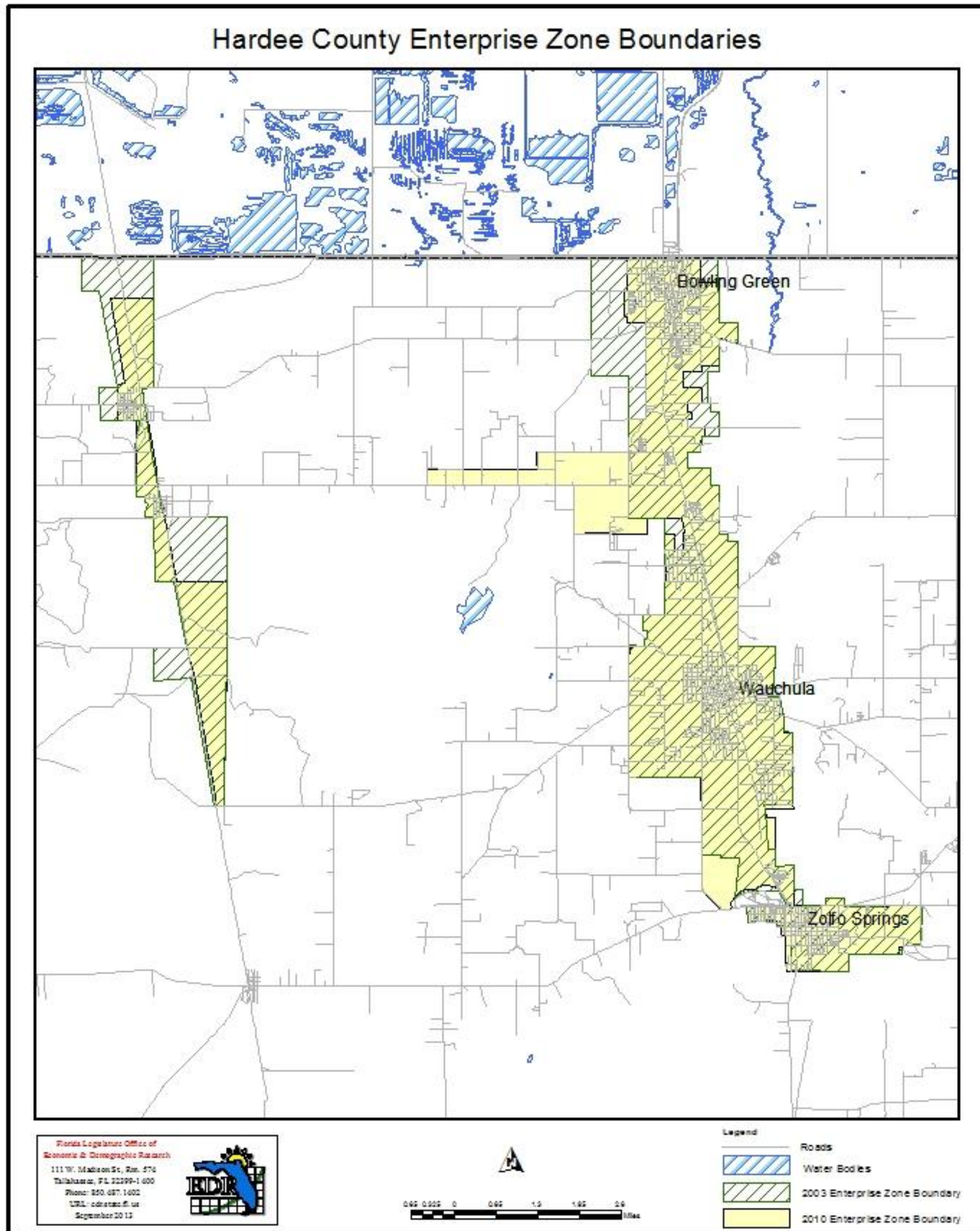
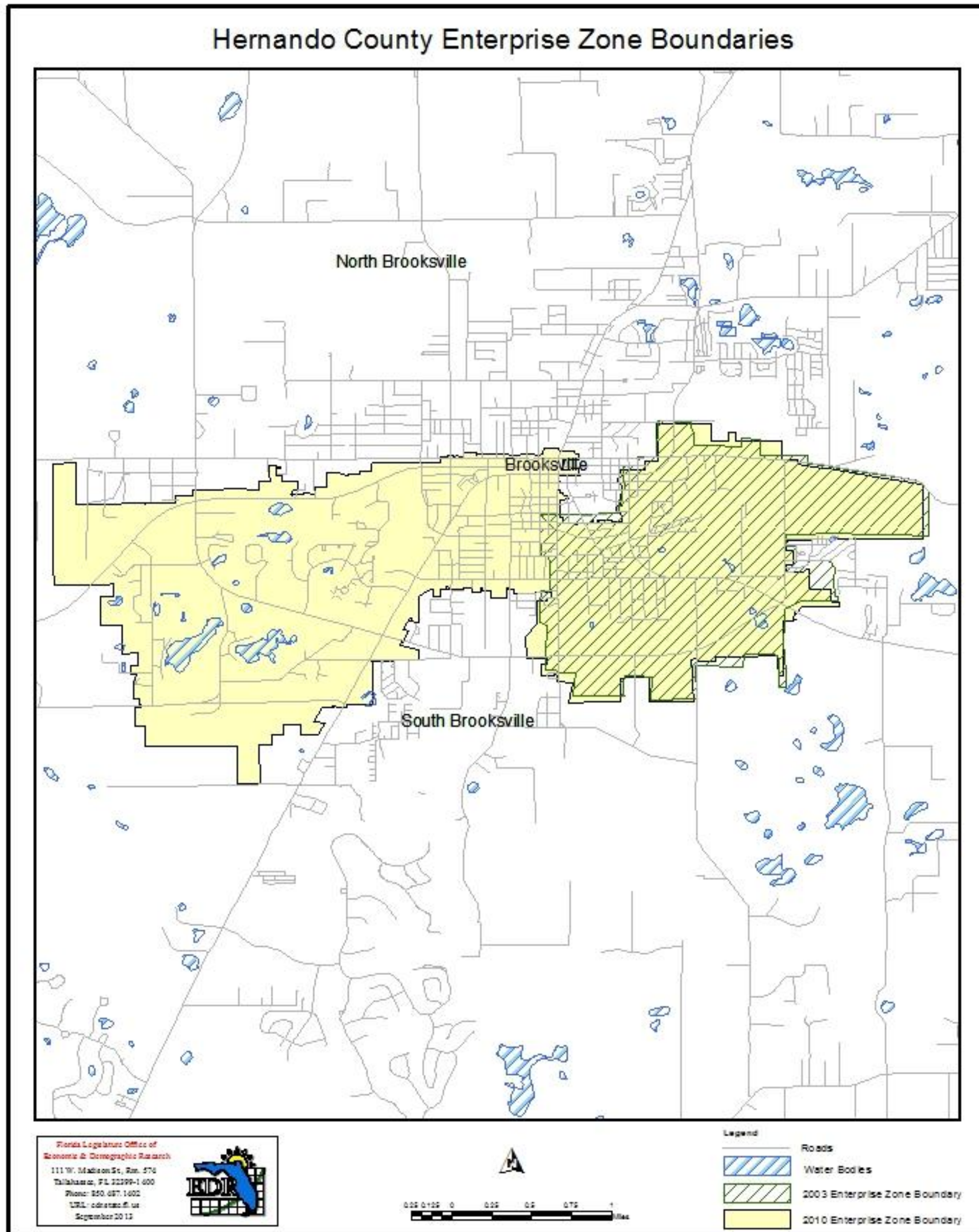
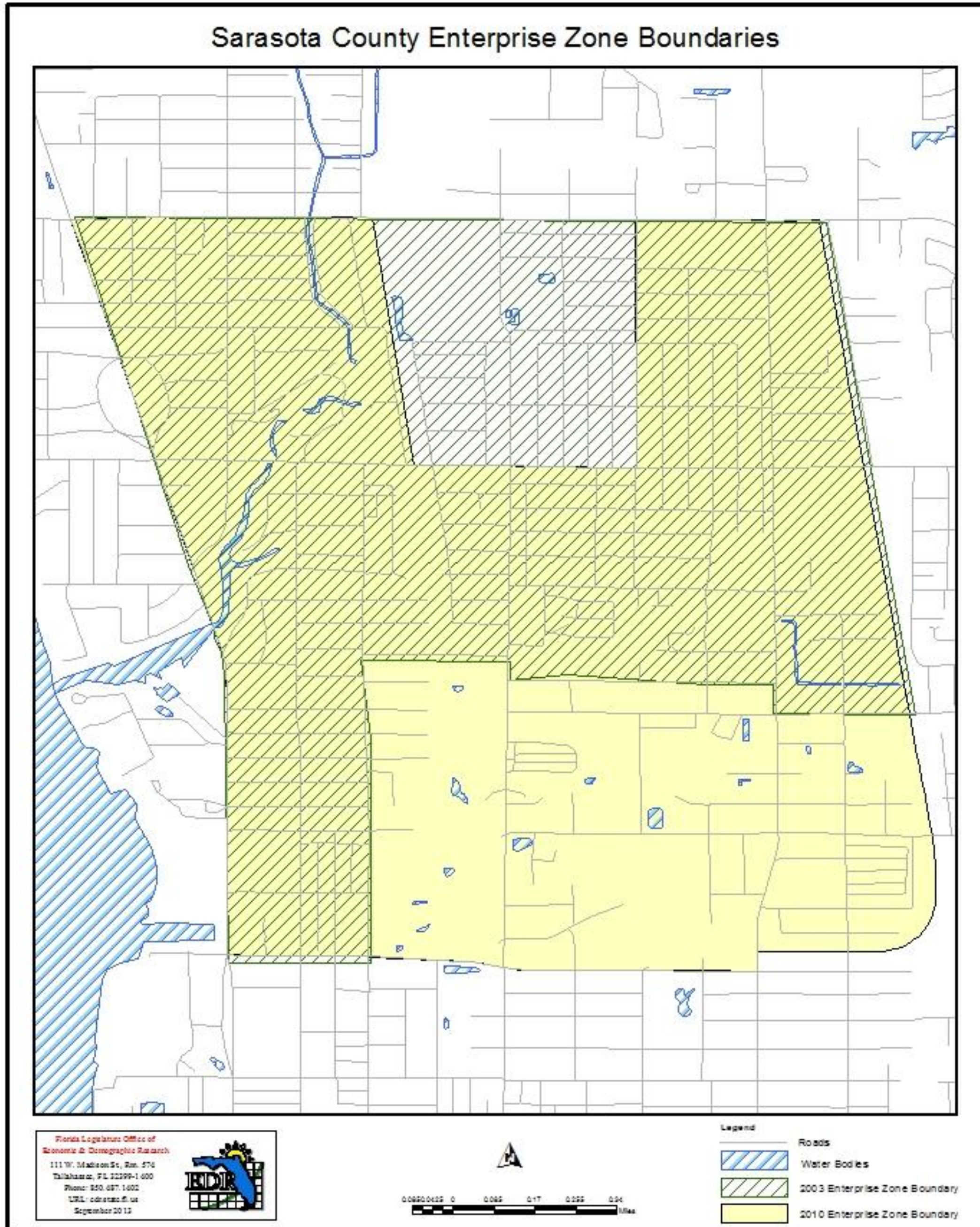


Chart 2.



APPENDIX FOUR

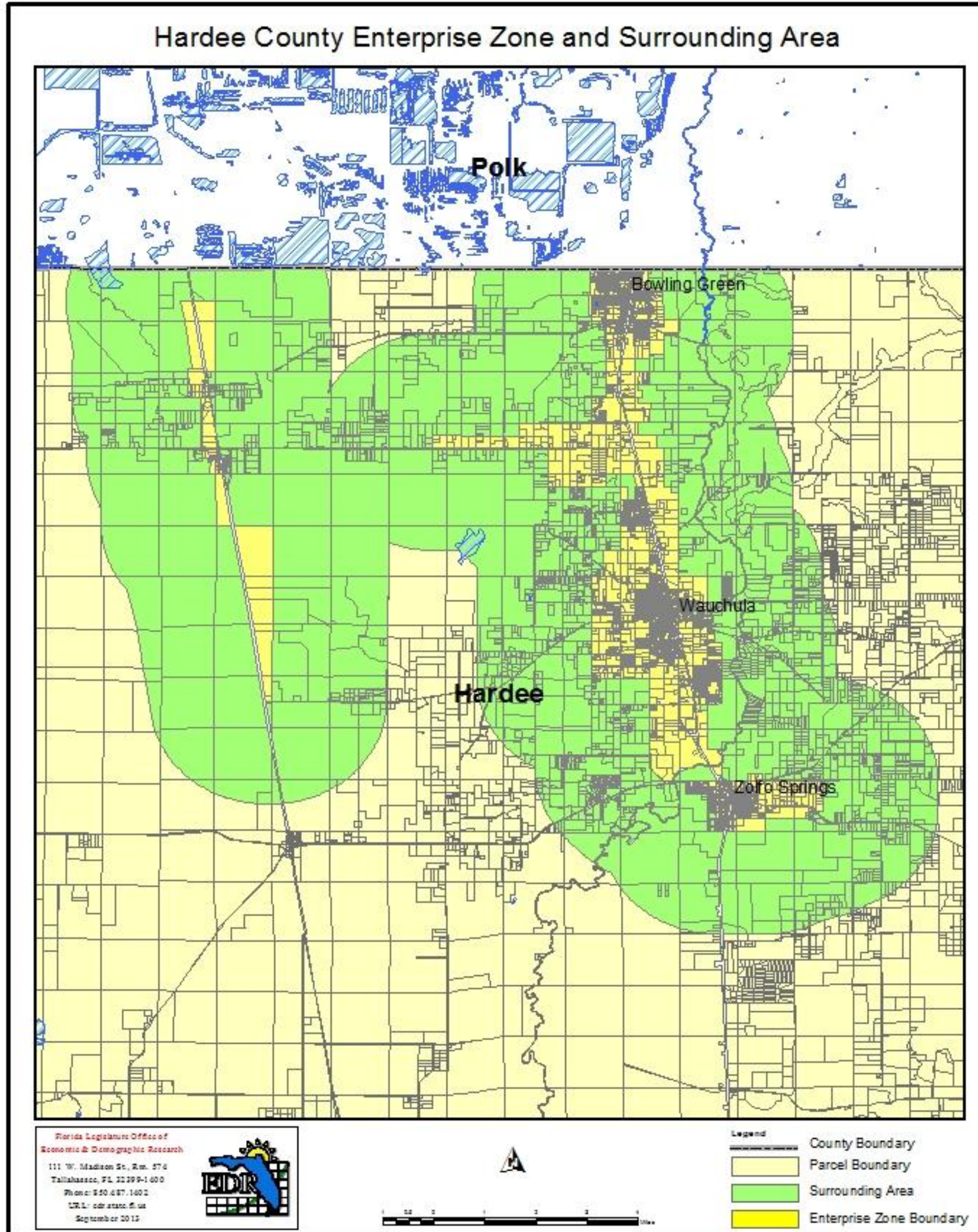
Chart 3.



APPENDIX FOUR

Charts 4-6 represent the parcels located within the zone (yellow) and a two mile radius around the zone that makes up the surrounding area of the zone (green).

Chart 4.



APPENDIX FOUR

Chart 5.

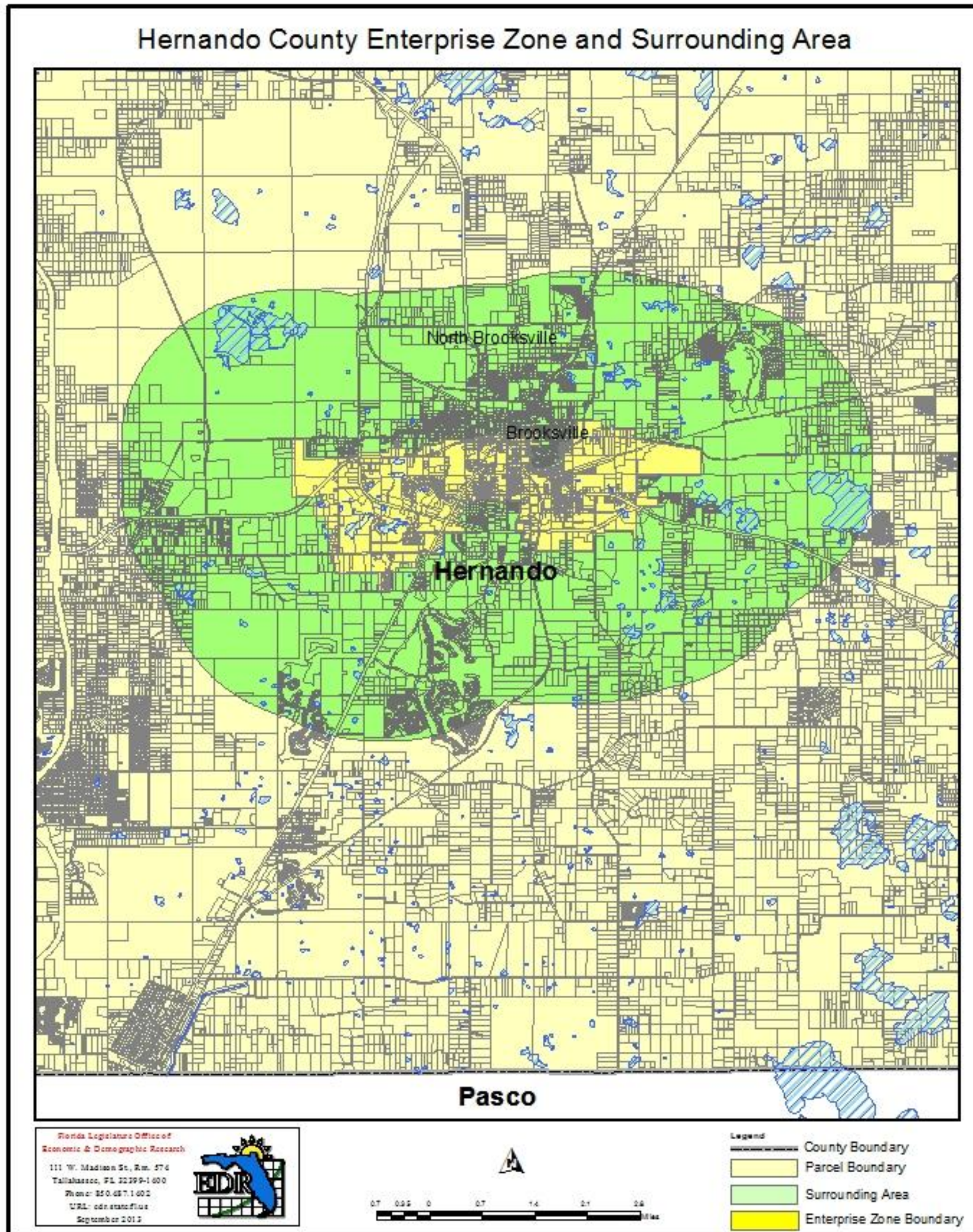
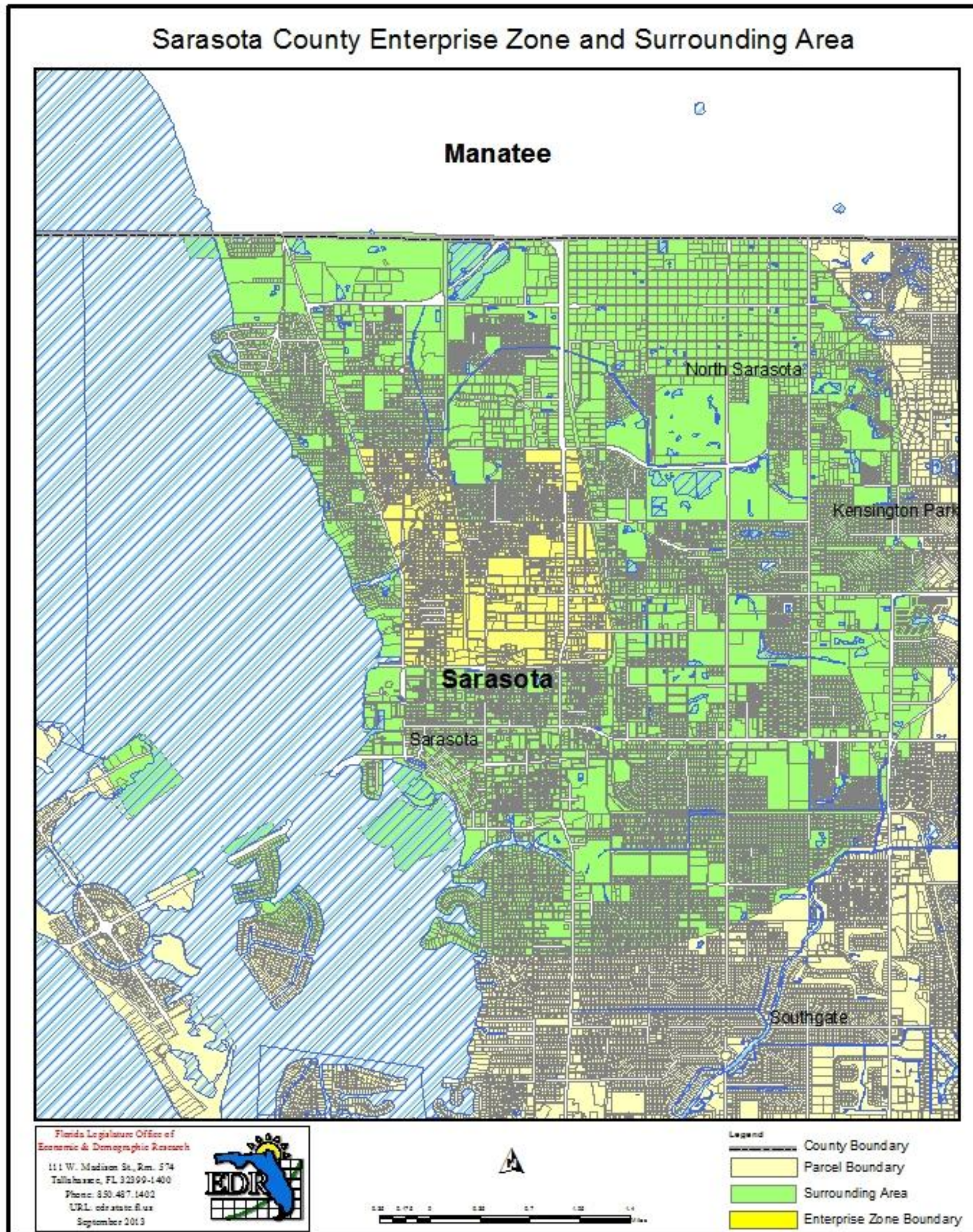


Chart 6.



APPENDIX FOUR

Table 1

	Sarasota EZ JV	Sarasota SA JV	Hernando EZ JV	Hernando SA JV	Hardee EZ JV	Hardee SA JV
1999	114,278,489	1,391,627,576	24,425,359	283,915,001	237,211,758	271,705,106
2000	129,451,932	1,490,914,981	25,285,709	297,595,019	241,444,131	278,081,016
2001	135,953,700	1,642,229,066	28,420,073	330,349,316	249,824,501	277,965,807
2002	148,631,500	1,878,639,980	31,382,281	356,578,487	259,507,903	264,140,651
2003	177,360,800	2,168,399,273	33,236,483	380,356,026	268,882,749	271,596,386
2004	203,726,000	2,462,196,050	34,846,369	413,097,995	281,424,943	294,597,321
2005	241,698,760	2,974,598,746	38,982,971	473,730,789	287,082,837	309,293,627
2006	333,694,900	3,931,587,130	49,010,041	561,164,836	378,296,365	400,712,686
2007	373,220,900	4,240,509,756	49,373,615	601,132,097	466,207,989	522,044,889
2008	324,163,870	3,550,846,300	51,575,472	603,009,172	482,878,213	527,428,472
2009	261,359,400	3,080,712,700	47,064,989	533,830,271	460,053,342	435,074,545
2010	248,583,600	2,622,081,900	45,459,561	477,848,195	411,408,856	376,584,063
2011	206,326,500	2,356,729,020	44,067,659	453,717,135	356,744,189	342,951,669
2012	193,469,800	2,394,037,100	41,676,326	435,608,561	353,385,364	336,318,111

1999-2002	30.06%	35.00%	28.48%	25.59%	9.40%	-2.78%
2003-2012	9.08%	10.41%	25.39%	14.53%	31.43%	23.83%

Note: SA is an abbreviation for the 2 mile buffer surrounding the Enterprise Zone.

APPENDIX FOUR

Findings and Conclusions

To measure the effectiveness of the Enterprise Zones, EDR looked at the differential growth rate between the parcels in the Enterprise Zone and parcels outside the Enterprise Zone located within a 2-mile buffer. If the differential growth rate changes favorably towards the EZ parcels then it would suggest that appreciation grew at a faster rate within the Enterprise Zones. The analysis showed that this was true in two out of the three Enterprise Zones. While the Sarasota County Enterprise Zone did not show this pattern, the growth rate within the Enterprise Zone still came close to matching the surrounding area.

The analysis of property values in Hardee, Hernando, and Sarasota Enterprise Zones from 1999 to 2012 did support a conclusion that Enterprise Zones have a direct and positive impact on property values. Consequently, this analysis does indicate that there is a potential positive return on investment for local government through additional property tax revenue.

APPENDIX FIVE

References

Ady, Robert M. as presented in: Ronald C. Fisher, "The Effects of State and Local Public Services on Economic Development" in the Proceedings of a Symposium on the Effects of State and Local Public Policies on Economic Development, *New England Economic Review*, March/April (1997): 77-82.

Alwang, Jeffrey, Peterson, Everett B., and Mills, Bradford. "Assessing the Impact of Incentives to Attract New Businesses: A Case Study of the Scrap Recycling Industry." Preliminary Report, October 21, 2001.

Anderson Economic Group, LLC. *Review of Kentucky's Economic Development Incentives* June, 2012.

Artiz, Soledad and Meier, Kenneth. "Taxes, Incentives, and Economic Growth: Assessing the Impact of Pro-business Taxes on U.S. State Economies," a paper presented at the National Meeting of the American Political Science Association, August 30 – September 2, 2012, New Orleans, Louisiana.

AT Kearney, "Delivering on the Promise of New York State: A Strategy for Economic Growth and Revitalization." Prepared for Empire State Development, 2007.

Bartik, Timothy J. "Business Location Decisions in the United States: Estimates of the Effects of Unionization, Taxes, and Other Characteristics of States" *Journal of Business & Economic Statistics*, Vol. 3, No. 1. (1985): 14-22.
-----. *Who Benefits from State and Local Economic Development Policies?* Kalamazoo: W.E. Upjohn Institute for Employment Research, 1991.
-----. "The Effects of State and Local Taxes on Economic Development: A review of Recent Research" *Economic Development Quarterly,* Vol. 6 No.1 (1992): 102-111.
-----. "Jobs, Productivity, and Local Economic Development: What Implications Does Economic Research Have for the Role of Government?" *National Tax Journal*, Vol. 47 (1994): 847-861.
-----. "Taxes and Local Economic Development: What Do We Know and What Can We Know?" Proceedings of the Eighty- Seventh Annual Conference on Taxation. Charleston, SC: National Tax Association-Tax Institute of America. November 13, 1994.
-----. "Economic Development Strategies." W.E. Upjohn Institute Working Paper No. 95-33. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1995.
-----. "Local Economic Development Policies." W.E. Upjohn Institute Working Paper No. 03-91, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2003.
-----. "Incentive Solutions." W.E. Upjohn Institute Working Paper No. 04-99, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2004.
-----. "Solving the Problems of Economic Development Incentives." *In Reining in the Competition for Capital*, Ann Markusen, ed. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2007.
-----."What Works in State Economic Development?" In *Growing the State Economy: Evidence-Based Policy Options*, 1st edition, Stephanie Eddy and Karen Bogenschneider, eds. Madison, WI: University of Wisconsin, 2009.

Bartik, Timothy J. and Bingham, Richard D. "Can Economic Development Programs be Evaluated?" Upjohn Institute Working Paper, No. 95-29, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1995.

Bartik, Timothy J. and Erickcek, George. "Simulating the Effects of Michigan's MEGA Tax Credit Program on Job Creation and Fiscal Benefits." Upjohn Institute Working Paper No. 12-185, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2012.

Blair, John P. and Premus, Robert. "Major Factors in Industrial Location: A Review." *Economic Development Quarterly* Vo.. 1, No.1 (February, 1987): 72-85.

Billings, Stephen. "Do Enterprise Zones Work? An Analysis at the Borders." Center for Economic Analysis, Department of Economics, University of Colorado at Boulder, 2007.

APPENDIX FIVE

Boarnet, Marlon and William T. Bogart. "Enterprise Zones and Employment: Evidence from New Jersey", *Journal of Urban Economics*, 40 (1996): 198-215.

Bondonio, D. and Greenbaum, R.T. "Do Local Tax Incentives Affect Economic Growth? What Mean Impacts Miss in the Analysis of Enterprise Zone Policies," *Regional Science and Urban Economics*, vol. 37, No. 1 (2007): 121-136.

Bondonio, Danniele, and Engberg, John. "Enterprise Zones and Local Employment: Evidence from the State's Programs", *Regional Science & Urban Economics*, Vol. 30, No. 5 (2000): 519-549.

Bradbury, Katharine L., Kodrzycki, Yolanda K. and Tannenwald, Robert. "The Effects of State and Local Public Policies on Economic Development: An Overview," in the Proceedings of a Symposium on the Effects of State and Local Public Policies on Economic Development, *New England Economic Review,* March/April (1997): 1-12.

Brunori, David "Principles of Tax Policy and Targeted Tax Incentives." *State and Local Government Review*, Vol. 29, No. 1. (1997): 50-61.

Buss, Terry F. "The Case Against Targeted Industry Strategies." *Economic Development Quarterly* Vol. 13, No. 4 (1999): 339-356.
-----. "The Effect of State Tax Incentives on Economic Growth and Firm Location Decisions: An Overview of the Literature." *Economic Development Quarterly* 15:19-10 (2001): 90-105.

Byers, Steven, Cutler, Harvey, and Davies, Stephen. "Estimating Costs and Benefits of Economic Growth: A CGE-based Study of Tax Incentives in a Rapidly Growing Region." *Journal of Regional Analysis and Policy* 34:2 (2004).

Calcagno, Peter T. and Thompson, Henry. "State Economic Incentives: Stimulus or Reallocation?" *Public Finance Review*, Vol. 35, No. 5. (2004): 1-15.

California Budget Project, *Dollar for Dollar: California's Enterprise Zone Program Falls Short* Budget Brief, June, 2013.

California Legislative Analyst's Office, "California's Enterprise Zone Program" A presentation to the Senate Budget and Fiscal Review Subcommittee No. 4 on State Administration and General Government, May 9, 2013.

California Legislative Analyst's Office, "California's Enterprise Zone Program" A presentation to the Senate Revenue and Taxation Committee, March 10, 2010.

Calvert, Scott and Jamie Smith Hopkins, "Most city neighborhoods get little in enterprise tax breaks; Enterprise Zone program was created to bring development, jobs to poor areas," *Baltimore Sun*, August 26, 2013, http://articles.baltimoresun.com/2013-08-26/news/bal-most-city-neighborhoods-get-little-in-enterprise-tax-breaks-20130826_1_enterprise-zone-program-harbor-point-harbor-east .
Calvert, Scott and Jamie Smith Hopkins, "Enterprise zone tax breaks flow to Baltimore waterfront, other prosperous neighborhoods; Schaefer launched program 30 years ago to aid poor areas, " *Baltimore Sun*, August 24, 2013, http://articles.baltimoresun.com/2013-08-24/news/bs-md-baltimore-enterprise-zone-20130824_1_baltimore-sun-baltimore-democrat-enterprise-zone-tax-breaks .
Also See *Baltimore Sun,* "Baltimore's sprawling enterprise zone. Our view: What started as small and directed has gotten large and amorphous, but city enterprise zones remain a useful tool for promoting economic development." September 01, 2013, http://articles.baltimoresun.com/2013-09-01/news/bs-ed-enterprise-zones-20130901_1_enterprise-zone-harbor-point-inner-harbor-east.

APPENDIX FIVE

Chirinko, Robert S. and Wilson, Daniel J. "State Investment Tax Incentives: What are the Facts?" Federal Reserve Bank of San Francisco, Working Paper 2006-49. 2006.
-----. "State Investment Tax Incentives: A Zero-Sum Game?" CESifo Working Paper, No. 1895, 2007.

Citizens Budget Commission, "It's Time to End New York State's Empire Zone Program" December, 2008.

Collins Center for Public Policy, Inc. & Global Insight, Inc. "Florida Qualified Target Industry Tax Refund Program: An Independent Analysis, " February, 2005.

Colorado Enterprise Zone Review Task Force Briefing Material, Office of Economic Development and International Trade, November, 2012.

Delta Development Group, Inc. and HR&A Advisors, Inc., "New Jersey Urban Enterprise Zone Program Assessment" February 18, 2011.

Dewar, Margaret E. "Why State and Local Economic Development Programs Cause so Little Economic Development." *Economic Development Quarterly*, Vol. 12 No. 1 (1998): 68-87.

Elvery, Joel. "The Impact of Enterprise Zones on Resident Employment: An Evaluation of the Enterprise Zone Programs of California and Florida." Dissertation, Maxine Goodman Levin College of Urban Affairs, Cleveland State University, September, 2007.

Engberg, John and Greenbaum, Robert. "State Enterprise Zones and Local Housing Markets." *Journal of Housing Research,* Vol. 10, Issue 2 (1999): 163-187.

Gordon, Colin. "EZ Money: Assessing Iowa's Enterprise Zone Program" Iowa Fiscal Partnership, April, 2008.

Enrich, Peter D. "Saving the States From Themselves: Commerce Clause Constraints on Tax Incentives for Business," *Harvard Law Review,* Vol. 110 No. 2 *(*1996): 377-467.

Enterprise Florida, Inc., *2012 Annual Incentives Report.* Tallahassee, Florida.

Fisher, Peter. "The Fiscal Consequences of Competition for Capital," *In Reining in the Competition for Capital*, Ann Markusen, ed. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2007.
-----. "Corporate Taxes and State Economic Growth*",* Policy Brief of the Iowa Fiscal Partnership, Revised February, 2012.
-----. "Grading Places: What do the Business Climate Rankings Really Tell Us?" Good Jobs First, 2013.

Fisher, Peter and Peters, Alan. "Tax and Spending Incentives and Enterprise Zones," in the Proceedings of a Symposium on the Effects of State and Local Public Policies on Economic Development, *New England Economic Review*, March/April 1997.

Fisher, Ronald C. "The Effects of State and Local Public Services on Economic Development" " in the Proceedings of a Symposium on the Effects of State and Local Public Policies on Economic Development, *New England Economic Review*, March/April (1997): 53-82.

Florida Department of Economic Opportunity, Bureau of Economic Development, Division of Community Development. *Enterprise Zone Program Annual Report, 2012*. Tallahassee, Florida.

Florida Office of the Auditor General, "Review and Evaluation of the Enterprise Zone Program", February 1, 1993 (Report No. 12003).

APPENDIX FIVE

Florida Office of Economic and Demographic Research, *Literature Review and Preliminary Analysis of the Impact of Enterprise Zones on State & Local Collections,* February 2010.

(Florida) Office of Program Policy Analysis and Government Accountability (OPPAGA), "Program Review: Use of Enterprise Zone Incentives Has Increased, but Challenges Continue, March 2000 Report No. 99-43.

(Florida) Office of Program Policy Analysis and Government Accountability (OPPAGA), "The Legislature Has Several Options Available for Enhancing Rural Enterprise Zones", November 2005, Report No. 05-54.

(Florida) Office of Program Policy Analysis and Government Accountability (OPPAGA), "Few Businesses Take Advantage of Enterprise Zone Benefits; the Legislature Could Consider Several Options to Modify the Program" OPPAGA Report No. 11-01, January 2011.

(Florida) Office of Program Policy Analysis and Government Accountability (OPPAGA), "Florida's Biotechnology Industry is Expanding; Cluster Growth Continues to Slowly Progress," OPPAGA Report No. 13-06, March 2013.

Florida Office of Tourism, Trade and Economic Development, *Florida Enterprise Zone Program Annual Report, 2010* March 2011.

Florida Senate Committee on Commerce and Economic Opportunities, *Review and Evaluation of the Enterprise Zone Program*, November 2000, Interim Project Report 2001-029, 3.

Florida Senate Committee on Commerce, Economic Opportunities, and Consumer Services, "Review Of Qualified Target Industry And Qualified Defense Contractor Tax Refund Programs" Interim project Report 2004-115, December 2003.

Gabe, T.M. and Kraybill, D.S. (2002). "The Effect of State Economic Development Incentives on Employment Growth of Establishments." *Journal of Regional Science,* vol. 42, no. 4. (2002): 703-730.

Glaeser, Edward L. "The Economics of Location-Based Tax Incentives". Harvard Institute of Economic Research, Discussion Paper Number 1932. 2001.

Goodman, D. Jay. "Are Economic Development Incentives Worth it? A Computable General Equilibrium Analysis of Pueblo, Colorado's Efforts to Attract Business," *The Journal of Regional Analysis and Policy,* 33:1 (2003): 43-55.

Gorin, Dan. "Economic Development Incentives: Research Approaches and Current Views" *Federal Reserve Bulletin*, Vol 94, 2008.

Goss, Ernest P. and Phillips, Joseph M. "Do Business Tax Incentives Contribute to a Divergence in Economic Growth?" *Economic Development Quarterly* Vol. 13 No. 3 (1999): 217-228.

Greenbaum, Robert T. and Engberg, John B. "The Impact of State Urban Enterprise Zones on Business Outcomes," a paper for the Center for Economic Studies, Washington DC. 1998.

Greenbaum , Robert T. and Landers, Jim. "The Impact of State Enterprise Zones on Urban Manufacturing Establishments" *Journal of Policy Analysis and Management* Vol 23, No. 2. (2004): 315-338.

Greenbaum , Robert T. and Landers, Jim. "Why Are State Policy Makers Still Proponents of Enterprise Zones? What Explains their Action in the Face of a Preponderance of the Research?" *International Regional Science Review* Vol 32, No. 4. (2009): 466-479.

APPENDIX FIVE

Ham, John C., Swenson, Charles, Imrohoroglu, Ayse, and Song, Heonjae. "Government Programs Can Improve Local Labor Markets: Evidence from State Enterprise Zones, Federal Empowerment Zones and Federal Enterprise Communities," unpublished paper, Institute for Research on Poverty, Discussion Paper no. 1381-10. 2010.

Hanson, Andrew Hanson and Rohlin, Shawn. "Do Location-Based Tax Incentives Attract New Business Establishments?" Accepted for publication in the *Journal of Regional Science,* 4/12/2010.
-----. "Do Spatially Targeted Redevelopment Programs Spillover?" Forthcoming in *Regional Science and Urban Economics, 2*012.

Hirasuna, Don and Michael, Joel. "Enterprise Zones: A Review of the Economic Theory and Empirical Evidence," Minnesota House of Representatives Research Department, January 2005.

Iannone, Donald T. *An Assessment of the Costs, Benefits, and Overall Impacts of the State of Ohio's Economic Development Programs*. The Urban Center, Maxine Goodman Levin College of Urban Affairs, Cleveland State University. May 28, 1999.

Imrohoroglu A. and Swenson, C. "Do Enterprise Zones Work?" Marshall School of Business, University of Southern California. 2007.

Iowa Department of Management, *Iowa Tax Credit Review Report*, December, 2009.

Jarrell, Sherry L., Shoesmith, Gary and Robbins, J. Neal. "Law and Economics of Regulating Local Economic Development Incentives" *Wake Forest Law Review,* Vol. 41 (2006): 805-835.

Kenyon, Daphne A., "Theories of Interjurisdictional Competition," " in the Proceedings of a Symposium on the Effects of State and Local Public Policies on Economic Development, *New England Economic Review*, March/April (1997): 13-35.

Kenyon, Daphne A., Langley, Adam H. and Paquin, Bethany P., "Rethinking Property Tax Incentives For Business," Policy Focus Report, Lincoln Institute of Land Policy. 2012.

Knaup, Amy E. and Piazza, Merissa C., "Business Employment Dynamics Data: Survival and Longevity, II" *Monthly Labor Review*, September 2007: 3-10.

Lane, Brent and Jolley, Jason G. "An Evaluation of North Carolina's Economic Development Incentive Programs: Summary of Analysis, Findings and Recommendations," Prepared for the North Carolina General Assembly, Select Committee on Economic Development Incentives. UNC Center for Competitive Economies, January 21, 2009.

Larkin, Kieran and Wilcox, Zach. "What Would Maggie Do? Why the Government's policy on Enterprise Zones needs to be radically different to the failed policy of the 1980s." *Centre for Cities,* February, 2011.

LeRoy, Greg. "Trends in State Business Incentives: More Money and More Accountability." *Spectrum: The Journal of State Government* (Winter, 2004): 15-18.

Lockie, Chris. "Economic Development Incentive Wars: What Influence do State and Local Economic Development Incentives have on the Location Decisions of Firms?" *Major Themes in Economics,* (Spring, 2002): 21-47.

Lott, William F., McMillen, Stan, Fairweather, Lindon, Maldonado-Veloza, Fabio and Al-Rabi, Amjad. "The Economic Impact of Connecticut's Corporate Tax Policy Changes: 1995-2012". Connecticut Center for Economic Analysis. 2005.

Luger, Michael and Bae, Suho. "The Effectiveness of State Business Tax Incentive Programs: The Case of North Carolina," *Economic Development Quarterly,* Vol. 19 No. 4 (2005): 327-345.

-----. “Speaking Falsehood to Power: States’ Misguided Use of “Cost-of-Doing Business” Studies in Economic Development Policy,” *The Review of Regional Studies,* Vol. 36, No. 1 (2006): 15-43.

Lynch, Robert. “Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development” Economic Policy Institute, Washington DC, 2004.

Markusen, A and Nesse, K. “Institutional and political determinants of incentive competition.” In *Reining in the competition for capital*, ed. A. Markusen. Kalamazoo: E.E.Upjohn Institute for Employment Research, 2007.

McGuire, Therese J. “Do Taxes Matter? Yes, No, Maybe So.” *State Tax Notes,* Vol 28 (2003): 885-890.

Mejia, Elaine, Nordstrom, Kristopher and Schwenke, Willliam. “Getting our Money’s Worth? An Evaluation of the Economic Model Used for Awarding State Business Subsidies” A project of the NC Justice Center, NC Budget & Tax Center, and CFED. March 2007.

Middleton, Luke. *Literature Review: Tax Abatements and Economic Development Incentives,* The University of Kansas Center for Economic and Business Analysis, Policy Research Institute, Report No. 49. January, 2001.

Minnesota Office of the Legislative Auditor. *Evaluation Report: JOBZ Program*” February, 2008.

Moore, William S. “Enterprise Zones, Firms Attraction and Retention: A Study of the California Enterprise Zone Program”, *Public Finance and Management*, No. 3 (2003): 376-392.

Morgan, Jonathan Q. “Using Economic Development Incentives: For Better or for Worse,” *Popular Government* (Winter 2009): 16-29.
--- --. “Analyzing the Benefits and Costs of Economic Development Projects,” *Community and Economic Development Bulletin*, *UNC School of Government* No. 7 April 2010.

Neumark, David and Kilko, Jed. “Do Enterprise Zones Create Jobs? Evidence from California’s Enterprise Zone Program” NBER Working Paper Series. December 2008, Revised January 2010.

Nevada Commission on Economic Development, “Does Economic Development Pay For Itself In Nevada?” 1999.

Newman, Robert J. “Industry Migration and Growth in the South” *The Review of Economics and Statistics,* Vol. 65, No. 1. (1983): 76-86.

Story, Louise. “United States of Subsidies,” *New York Times*, December 1, 2012, http://www.nytimes.com/interactive/2012/12/01/us/government-incentives.html.

Norris, Dave N. and Mansager Higgins, Elizabeth. “The Impact of Economic Development Incentive Programs: A Review of the Literature,” A Component of the Biennial Unified Economic Development Budget Report Provided to the Louisiana Department of Economic Development, Louisiana Tech University, 2003.

O’Keefe, Suzanne. “Job Creation in California’s Enterprise Zones: A Comparison Using a Propensity Score Matching Mode,” *Journal of Urban Economics*, Vol. 55, No. 1 (2004): 131-150.

Papke, Leslie E., “What Do We Know about Enterprise Zones?” NBER Working Paper*,* No. 4251, 1993.
-----. 1994. “Tax policy and Urban Development: Evidence from the Indiana Enterprise Zone Program”, *Journal of Public Economics*, 54 (1994): 37-49.

Pennsylvania Economy League. “The Effectiveness of Economic Development Programs: A Review of the Literature and Opinion.” Volume 1, October 2000.

APPENDIX FIVE

Peters, Alan and Fisher, Peter. *State Enterprise Zone Programs: Have They Worked?* Kalamazoo, MI: Upjohn Institute for Employment Research, 2002.
-----. "The Effectiveness of State Enterprise Zones." *Employment Research Newsletter*, Vol. 9, No. 4 , Upjohn Institute for Employment Research, Kalamazoo, MI (2002).
-----. "The Failures of Economic Development Incentives" *Journal of the American Planning Association*, Vol. 70, No. 1 (2004): 27-37.

Phillips, Joseph M. and Goss, Ernest P. "The Effect of State and Local Taxes on Economic Development: A Meta-Analysis" *Southern Economic Journal,* Vol. 62, No. 2. (1995): 320-333.

Poole, Kenneth, Erikcek, George A., Iannone, Donald, McCrea, Nancy and Salem Pofen. *Evaluating Business Development Incentives*. A report prepared for the U.S. Department of Commerce, Economic Development Administration, EDA Project #99-07-13794, by the National Association of State Development Agencies, W.E. Upjohn Institute for Employment Research, and The Urban Center, Cleveland State University. August, 1999.

Pomp, Richard. "State Tax Reform: Proposals for Wisconsin" *Marquette Law Review*, Vol. 88 (2004): 45-70.

Rubin, H.J. "Shoot anything the Flies; Claim Anything that Falls: Conversations with Economic Development Practitioners," *Economic Development Quarterly,* Vol. 2, No. 3 (1988): 236-251.
----. "Working in a Turbulent Environment: Perspectives of Economic Development Practitioners," *Economic Development Quarterly,* Vol, 4, No. 2 (1990): 113-127.

Sridhar, Hala S. "Tax Costs and Employment Benefits," *The Review of Regional Studies*, Vol 30, No. 3 (2000): 275-298.

Sissons, Andrew and Brown, Chris. "Do Enterprise Zones Work?" An Ideopolis policy paper, *The Work Foundation,* February 2011.

Snell, Ronald K. "A Review of State Economic Development Policy," National Conference of State Legislatures, 1998.

Stallmann, Judith I. and Johnson, Thomas G. "Economic Development Incentive Programs: Some Best Practices." Institute of Public Policy, University of Missouri. Report 13-2011.

Stokan, Eric. "Testing Rubin's Model 25 Years Later: A Multilevel Approach to Local Economic Development Incentive Adoption," *Economic Development Quarterly,* vol. 27, no. 4. (2013): 301-315.

Sweeney, Mark. "The Challenge of Business Incentives for State Policymakers: A Practitioner's Perspective," *Spectrum: The Journal of State Government* (Winter 2004): 10.

Turner, RC and Cassell, MK. "When Do States Pursue Targeted Economic Development Policies? The Adoption and Expansion of State Enterprise Zone Programs." *Social Science Quarterly*, 2007.

U.S. General Accounting Office, "Enterprise Zones: Lessons from the Maryland Experience." Washington, DC: GAO, 1988.

U.S. Government Accountability Office, "EMPOWERMENT ZONE AND ENTERPRISE COMMUNITY PROGRAM--Improvements Occurred in Communities, but the Effect of the Program Is Unclear", September 2006. (GAO 06-727).

APPENDIX FIVE

The Urban Center, Maxine Goodman Levin College of Urban Affairs, Cleveland State University, *An Assessment of the Costs, Benefits, and Overall Impacts of the State of Ohio's Economic Development Programs*. May 28, 1999.

Vermont Economic Progress Council, *Vermont Employment Growth Incentive Authorization Criteria*, Version 4.2012.

Virginia's Joint Legislative Audit and Review Commission, "Review of State Economic Development Incentive Grants" Senate Document No. 8. November 2012.

Wainwright, Simon. "Enterprise Zones: Do they created or transfer value?" *Journal of Urban Regeneration and Renewal*, Vol. 5, 2. (2012): 124-131.

Wasylenko, Michael. "Taxation and economic development: the state of the economic literature," *New England Economic Review,* March (1997): 36-52.

Weiner, Jennifer. "State Business Tax Incentives: Examining Evidence of their Effectiveness" Federal Reserve Bank of Boston, 2009.

Weisbrod, Glen and Weisbrod, Burton. "Measuring Economic Impacts of Projects and Programs." *Economic Development Research Group,* 1997.

Wilder & Rubin. "Rhetoric versus Reality: A Review of Studies on State Enterprise Zone Programs" *Journal of the American Planning Association,* Vo. 62, Issue 4, 1996.

Wisconsin Legislative Fiscal Bureau. *Overview of Economic Development Incentives.* Joint Committee on Finance, Commerce Paper #205.

Wong, John D. "Strategic Analysis of Economic Development Expenditures by Kansas State Government and Five Surrounding State Governments: FY 1989 – FY 2007." Hugo Wall School of Urban and Public Affairs, Wichita State University, 2007.

Florida Economic Development Program Evaluations – Year 1

REPORT NO. 14-01
1/1/2014

OFFICES OF THE FLORIDA LEGISLATURE:
Office of Program Policy Analysis and Government Accountability &
Office of Economic and Demographic Research

OPPAGA supports the Florida Legislature by providing evaluative research and objective analyses to promote government accountability and the efficient and effective use of public resources. EDR is a research arm of the Florida Legislature principally concerned with forecasting economic and social trends that affect policymaking, revenues, and appropriations. Cover photo by Mark Foley.

R. Philip Twogood, OPPAGA Coordinator
Amy Baker, EDR Coordinator

TABLE OF CONTENTS

Chapter 1: Florida Economic Development Program Evaluations 1
- Scope 1
- Background 2
- Findings 9
- Recommendations 18

Chapter 2: Capital Investment Tax Credit Program 19
- Background 19
- Program Performance 22

Chapter 3: Qualified Target Industry Tax Refund Program 23
- Background 23
- Program Performance 26

Chapter 4: Brownfield Redevelopment Bonus Refund Program 28
- Background 28
- Program Performance 31

Chapter 5: High Impact Performance Incentive Grant Program 32
- Background 32
- Program Performance 34

Chapter 6: Quick Action Closing Fund Program 35
- Background 35
- Program Performance 37

Chapter 7: Innovation Incentive Program 38
- Background 38
- Program Performance 41

Chapter 8: Enterprise Zone Program 44
- Background 44
- Program Performance 48

Agency Response from Enterprise Florida Inc. 52

Agency Reponse from the Department of Economic Opportunity 54

Chapter 1: Florida Economic Development Program Evaluations

Scope

Chapters 2013-39 and 2013-42, *Laws of Florida*, require the Office of Economic and Demographic Research (EDR) and the Office of Program Policy Analysis and Government Accountability (OPPAGA) to provide a detailed analysis of state economic development programs according to a recurring schedule established in law. The analysis is due to the Legislature by January 1 of each year.

EDR will evaluate and determine the economic benefits, as defined in s. 288.005(1), *Florida Statutes*, of each program over the previous three years. For the purposes of EDR's analysis, the calculation of economic benefits is the same as the state's return on investment. The analysis will also identify the number of jobs created, the increase or decrease in personal income, and the impact on state gross domestic product from the direct, indirect, and induced effects of the state's investment in each program over the previous three years.

OPPAGA will evaluate each program over the previous three years for effectiveness and value to the state's taxpayers and include recommendations for consideration by the Legislature. The analysis may include relevant economic development reports or analyses prepared by the Department of Economic Opportunity, Enterprise Florida, Inc., or local or regional economic development organizations; interviews with parties involved; or any other relevant data.

Seven programs are scheduled for review by January 1, 2014.

1. Capital Investment Tax Credit Program (CITC)
2. Qualified Target Industry Tax Refund Program (QTI)
3. Brownfield Redevelopment Bonus Refund Program
4. High Impact Performance Incentive Grant Program (HIPI)
5. Quick Action Closing Fund Program (QAC)
6. Innovation Incentive Program
7. Enterprise Zone Program

As part of its review, OPPAGA gathered information on projects that received incentives during at least one year of the evaluation period—Fiscal Years 2009-10, 2010-11, and 2011-12. Information included

- job, capital investment, incentive payment, and administrative cost data provided by the Department of Economic Opportunity (DEO);
- tax credit, tax refund, and administrative cost data supplied by the Department of Revenue (DOR);
- incentive claims processing information and administrative cost data provided by the Department of Financial Services (DFS);
- incentive program information and administrative cost data from Enterprise Florida, Inc. (EFI); and
- survey and interview responses submitted by incentive recipients, economic development organizations, and site selection consultants.

In addition, OPPAGA conducted a file review to assess the completeness of Department of Economic Opportunity incentive recipient project files and to make observations about the department's incentive monitoring activities.

Background

Incentive Program Descriptions

The seven economic incentive programs under review include tax credits, tax refunds, and cash grants. The primary purpose of each program is to attract and grow businesses in Florida, which includes promoting job creation and capital investment. In addition, several programs have other goals, such as revitalizing economically distressed areas and encouraging emerging technology cluster development. (See Exhibit 1-1.)

Businesses that receive incentives from these programs enter into multi-year agreements with the state. These agreements include a schedule for meeting performance requirements such as job creation and capital investment; for some programs, businesses have as many as 20 years to meet these requirements.

Exhibit 1-1
The Seven Programs Under Review Include Tax Credit, Tax Refund, and Cash Grant Incentives[1]

Program	Incentive Type	Statutory Reference
Capital Investment Tax Credit Program – Attracts and grows capital-intensive industries by providing an annual credit against the corporate income tax that is available for up to 20 years in an amount equal to 5% of the eligible capital costs generated by a qualifying project. Eligible capital costs include all expenses incurred in the acquisition, construction, installation, and equipping of a project from the beginning of construction to the commencement of operations. Businesses must make an investment of at least $100 million to receive the full credit.	Tax Credit	s. 220.191, *F.S.*
Qualified Target Industry Tax Refund Program – Encourages the creation of high-skill jobs and the growth of corporate headquarters and other target industries. Provides a tax refund of $3,000 per new job created in Florida through the expansion of existing Florida businesses or the location of new ones ($6,000 per job within an enterprise zone or rural county). A business is eligible for a $1,000 per job bonus if it pays over 150% of average wages in the area and a $2,000 per job bonus if over 200%. Projects must be supported by the local community, which provides funding for 20% of the incentive.	Tax Refund[2]	s. 288.106, *F.S.*
Brownfield Redevelopment Bonus Refund Program – Encourages development of abandoned, idled, or underused industrial and commercial sites where expansion or development is complicated by actual or perceived environmental contamination. Designed to work with Qualified Target Industry projects, paying a bonus of $2,500 per job over and above the QTI refund; provides a $2,500 per job refund for non-QTI projects that meet job creation and capital investment requirements.	Tax Refund[2]	s. 288.107, *F.S.*
High Impact Performance Incentive Grant Program – Provides grants to pre-approved applicants in certain high-impact sectors. Once approved, the high-impact business receives 50% of the eligible grant upon commencement of operations and the other half once full employment and capital investment goals are met.	Grant	s. 288.108, *F.S.*
Quick Action Closing Fund Program – Provides a discretionary grant to respond to unique requirements of wealth creating projects. When Florida is vying for intensely competitive projects, the funds may be utilized to overcome a distinct quantifiable disadvantage after other available resources have been exhausted. Funds are paid out based on specific project criteria outlined in a performance-based contract between the company and the state.	Grant	s. 288.1088, *F.S.*
Innovation Incentive Program – Targets funds to businesses that expand or locate in Florida, are likely to serve as catalysts for the growth of existing or emerging technology clusters, or significantly affect the regional economy in which they expand or locate.	Grant	s. 288.1089, *F.S.*
Enterprise Zone Program – Encourages the revitalization of economically distressed areas in Florida by providing credits against Florida's sales tax or corporate income tax to businesses located in an enterprise zone for hiring zone residents. Corporate income tax credits are available for businesses that construct or expand their facilities within a zone. Sales tax refunds are available when businesses purchase business equipment or building materials for use within a zone.	Tax credits and refunds	ss. 212.08(5)(g) and (h), 212.08(15), 212.096, 220.181, and 220.182, *F.S.*

[1] We classified the seven programs in the same manner that Enterprise Florida, Inc., categorizes them in its statutorily required annual incentives report.

[2] This incentive is not a traditional tax refund program. Rather, the incentive is administered similarly to a cash grant program, with the Legislature annually appropriating funds to be "refunded" to businesses after they meet job creation requirements.

Source: *Florida Statutes*.

Incentive Program Administration

Several entities help administer the state's economic incentive programs. Four entities are primarily responsible for administering the seven incentive programs currently under review: Enterprise Florida, Inc., the Department of Economic Opportunity, the Department of Revenue, and the Department of Financial Services. (See Exhibit 1-2.) In addition, the Department of Environmental Protection provides information to DEO to ensure that a project receiving a Brownfield Redevelopment Bonus Refund is within a designated brownfield area.

Exhibit 1-2
Several Entities Are Involved in Administering the State's Economic Incentive Programs

Enterprise Florida, Inc.	Department of Economic Opportunity	Department of Revenue	Department of Financial Services
▪ Advertises and markets the state's incentive programs ▪ Assists businesses that apply for incentives ▪ Works with community partners to gather information that would be useful to applicants (e.g., potential sites, area demographics, and local incentives) ▪ Reviews applications for completeness ▪ Recommends projects to DEO for receipt of incentives	▪ Oversees the application/ certification approval process[1] ▪ Administers, reviews, and approves incentive claims ▪ Monitors businesses' compliance with program agreements, which specify the required number of jobs, average wage, capital investment, and other performance goals ▪ Decertifies/terminates businesses that do not meet performance requirements[1]	▪ Upon request, may verify information in any claim submitted for tax credits with regard to employment, wage levels, or payment of sales, corporate, or property taxes ▪ Reviews and approves enterprise zone tax credit and refund applications ▪ Provides enterprise zone data to DEO for annual reporting	▪ Reviews, approves, and issues incentive payments ▪ Examines information provided by DEO, including the request for payment and supporting documentation (e.g., incentive agreement and evidence of meeting performance requirements) ▪ Requests additional information as necessary ▪ Authorizes payment and issues a warrant

[1] The department certifies applicants as Qualified Target Industry businesses and decertifies business that fail to comply with incentive agreement terms.

Source: OPPAGA analysis of information from agency documents, interviews, and the *Florida Statutes*.

It should be noted that the 2011 Legislature created the Department of Economic Opportunity by repealing the Department of Community Affairs, the Agency for Workforce Innovation, and the Office of Tourism, Trade and Economic Development (OTTED) and transferring some or all of their functions to the new department; this included economic incentive-related functions previously performed by OTTED.[1] A primary purpose of the legislation was to streamline the state's economic development and workforce functions. The new department began operations on October 1, 2011.

In general, economic incentive programs are subject to the same application and approval process.[2] Businesses interested in expanding or relocating in Florida learn about the state's economic incentive programs through several channels, including Enterprise Florida, Inc. (EFI), state and local economic development organizations, and private site selection consultants. EFI provides businesses a variety of services prior to application filing, including evaluating businesses' needs, identifying potential site locations, and providing information on state and local incentives that might aid businesses with expansion or relocation projects. EFI also helps businesses complete the incentive application, which may require coordination with local economic development organizations and/or consultants. Businesses can apply for more than one incentive to support their expansion or relocation projects.

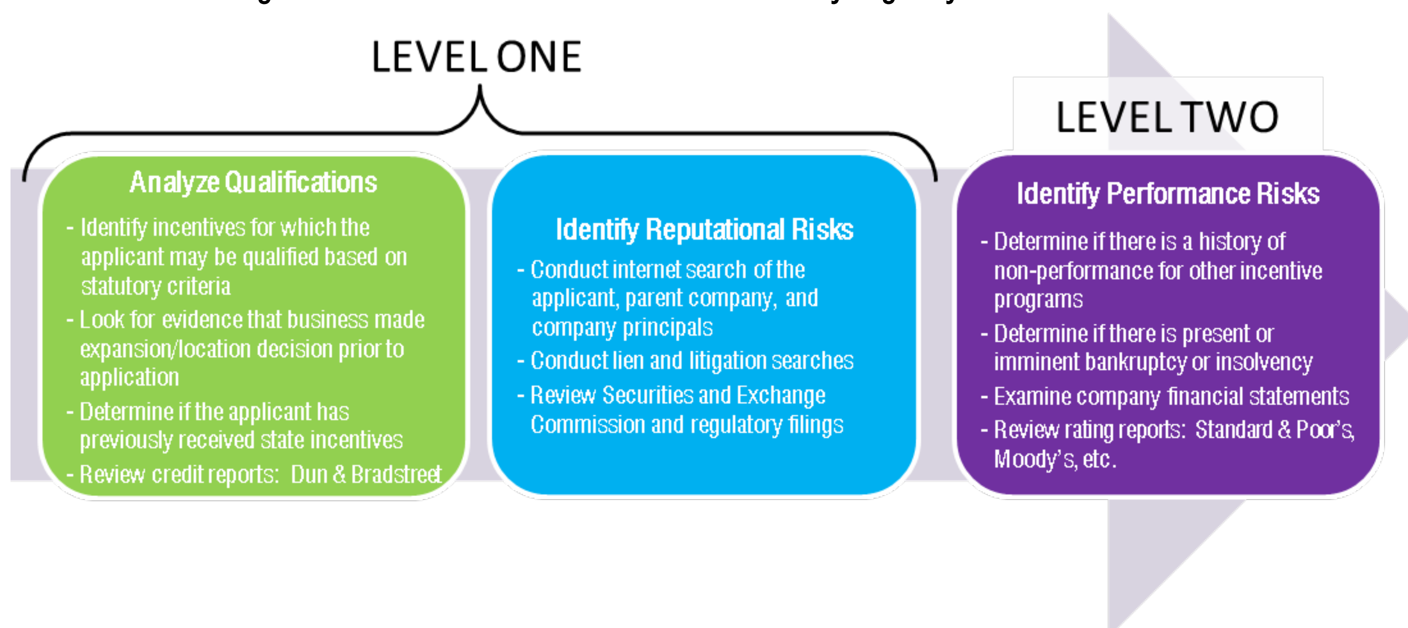
---

[1] Chapter 2011-142, *Laws of Florida.*

[2] The exception is the Enterprise Zone Program, which is not subject to the same application process as other incentive programs. See Chapter 8 for a discussion of the administration of the Enterprise Zone Program.

Once a company begins the application process, EFI notifies the Department of Economic Opportunity so that the department may begin its formal due diligence process to determine the business's statutory eligibility and financial standing. DEO's due diligence process has two levels. Level one due diligence is conducted for all incentive applications and includes determining whether the company satisfies statutory criteria for program participation and if the business is in good financial and legal standing. Level two due diligence is used for grant incentive programs (e.g., Quick Action Closing Fund) and considers the business's credit risk and other factors that could affect its ability to repay the state should it be unable to meet incentive performance requirements. (See Exhibit 1-3.)

Exhibit 1-3
DEO Uses a Due Diligence Process to Assess a Business's Statutory Eligibility and Financial Soundness



Source: Department of Economic Opportunity.

Once due diligence is complete, DEO staff review the application for completeness; if the application is not complete, the applicant is notified, and additional information is requested. Once the application is deemed complete, the department determines what state incentives and associated amounts may be available to the applicant, and a recommendation is made to DEO's executive director to approve or disapprove the application. The executive director will approve or disapprove the application within 10 business days after receipt and issue a letter of certification to the applicant. DEO will develop a contract or agreement with the applicant that specifies the total incentive amount, the performance conditions that must be met to receive payment, the schedule for payment, the sanctions for failure to meet performance conditions; the contracts may also include representations, warranties and other covenants.

All of the economic incentive programs currently under review are subject to performance monitoring. Each incentive recipient is required to provide documentation to the Department of Economic Opportunity demonstrating that it met contractual requirements.[3] DEO is required to validate the

[3] The exception is Enterprise Zone Program incentive recipients. DEO does not oversee the processing of these incentive claims; this function is handled by the Department of Revenue.

performance of all businesses that receive incentives and report this validation in its annual incentives report.[4, 5] Businesses that are found to be out of compliance with performance requirements may be terminated from the incentive program. Incentive grant contracts also contain penalties for non-performance, including clawback provisions that the state uses to recapture funds.[6]

The compliance monitoring process entails reviewing information obtained directly from businesses, state and federal agencies, local governments, and other independent information sources to document contractual performance for every claim submitted to DEO. Monitoring can also involve identifying circumstances that may justify exemptions, waivers, or reduced prorated refunds based on the actual performance of the business. Compliance monitoring is conducted annually and is based on the calendar year, although some programs are required to provide quarterly updates (e.g., the Innovation Incentive Program). For most incentive programs, by January 31st of each year, businesses must submit claims along with documentation demonstrating performance during the previous calendar year; businesses can request that the department grant a 30-day extension to this due date.[7] DEO staff or the department's contractor must review claims to assess the appropriateness and completeness of the documentation for three performance areas: 1) employment, wages, and benefits; 2) capital expenditures; and 3) tax payments. For each area, documentation requirements vary among incentive programs. (See Exhibit 1-4.)

Exhibit 1-4
Incentive Programs Have Varying Documentation Requirements for Demonstrating Performance

	Performance Requirement				
	Employment	Wages	Benefits	Capital Expenditures	Tax Payments
Capital Investment Tax Credit Program	✓			✓	
Qualified Target Industry Tax Refund Program	✓	✓			✓
Brownfield Redevelopment Bonus Refund Program	✓	✓	✓	✓	✓
High Impact Sector Performance Grant Program	✓			✓	
Quick Action Closing Fund Program	✓	✓		✓	
Innovation Incentive Program	✓	✓		✓	
Enterprise Zone Program	✓				✓

Source: Department of Economic Opportunity and the *Florida Statutes*.

4 Section 288.907, *F.S.*

5 Until 2012, performance was monitored and verified by a third-party vendor under a contract with DEO. This function was transferred to DEO staff in September 2012, at which point the department's Division of Strategic Business Development became responsible for conducting compliance monitoring. In 2013, the Legislature directed DEO to again contract with a third-party auditor for compliance services, and the department released a Request for Proposals (RFP) in August 2013 to solicit a contractor to perform these functions. The department reissued the RFP in November 2013; bids were due in December 2013.

6 Clawbacks stipulate that a firm not achieving agreed-upon employment performance requirements must pay back all or a portion of the incentive it received.

7 The exception is the Innovation Incentive Program, in which participants receive payments according to a schedule established in their contracts. These schedules vary for each participant, because contract effective dates vary.

Documents used to confirm **employment, wages, and benefits** include information that businesses report to the Department of Revenue for unemployment compensation purposes; company-generated lists of employees, wages, and benefit payments; and federal W-2 and 1099 forms. Evidence of **capital expenditures** includes invoices; cancelled checks; bank statements; and credit card statements. For **tax payments,** documentation may include corporate income tax data from the Department of Revenue; invoices and cancelled checks; bank statements; and data from county tax collectors.

Once the supporting documentation provided by the business has been reviewed and other evidence from state, federal, or local agencies has been identified, department or third-party vendor staff determine whether the company has met contract requirements. If the company has not met contract requirements, the agreement will be terminated unless there is a legislatively authorized mechanism for renegotiation.[8] If the company has met contract requirements, the claims packet is submitted to DEO management for approval and for most incentives is then forwarded to the Department of Financial Services for its review, approval, and issuance of a payment.[9] The packet that DEO submits to DFS includes information regarding a business's incentive package, a voucher schedule, a request for payment, and supporting documentation (e.g., incentive agreement and contract summary form that reflects deliverables). If information is not sufficient for DFS to authorize payment, the department requests additional data from DEO prior to issuing a warrant.

DEO uses a classification system to reflect the status of incentive projects. Status categories include active, inactive, terminated, and complete.

- **Active**: Currently in progress and in good standing with regard to meeting contract performance goals
- **Inactive**: Has received one or more incentive payments after meeting a portion of contract commitments, but is ineligible for future payments
- **Terminated**: Incentive contract was executed but business has not received any payments and is ineligible for future payments
- **Complete**: Business has met the terms of its contract and received all eligible incentive payments

To examine program costs and performance, OPPAGA asked DEO to provide data for projects that received incentives (i.e., grant payments, tax refunds, and tax credits) during the three-year review period (Fiscal Years 2009-10 through 2011-12). Of the 192 projects that met our criteria, 124 (65.6%) were active, 42 (21.9%) were complete, and 26 (13.5%) were inactive. Several projects in our sample received incentives from multiple programs.[10] Specifically, the 192 projects received 234 program incentives. The vast majority (79.7%) of projects received one incentive, 18.8% received two, and 1.6% received three.

Incentive Program Costs

Incentive costs. The 192 projects that received state incentives during Fiscal Years 2009-10 through 2011-12 have received a total of $668.9 million; this amount comprises all incentives received, including those received prior to the three-year period. Most projects (166) received incentives from the Qualified Target Industry Tax Refund Program, while only 2 projects received High Impact Performance

---

[8] An example of such a mechanism is an "economic recovery extension," which DEO can grant to businesses participating in the Qualified Target Industry Program if certain conditions are met. See s. 288.106(5)(b), *F.S.* In addition, the department has the authority to negotiate contractual amendments, which may also extend the schedule for meeting performance requirements.

[9] The exception is the Innovation Incentive Program, in which participants have tri-party trust agreements with DEO and the State Board of Administration (SBA). Under these agreements, the SBA invests undisbursed funds and makes payments to participants according to a disbursement schedule, upon DEO's approval.

[10] Two projects in our sample had incentives that were terminated; they received incentives for other programs under review.

Incentives. The Innovation Incentive Program accounted for the highest percentage of incentives received, at 55.1%. (See Exhibit 1-5.)

Exhibit 1-5
Projects Receiving State Incentives in Fiscal Years 2009-10 Through 2011-12 Have Collected $668.9 Million

Program	Number of Projects	Contracted	Received
Brownfield Redevelopment Bonus Refund Program	9	$3,472,500	$1,945,102
Capital Investment Tax Credit Program	8	NA[1]	60,643,426
High Impact Performance Incentive Program	2	2,000,000	1,000,000
Innovation Incentive Program	8	449,690,000	368,043,853
Qualified Target Industry Tax Refund Program	166	120,570,800	54,053,350
Quick Action Closing Fund Program	41	78,180,330	72,257,596
Enterprise Zone Program	NA	NA[1]	110,931,262
Total[2]	**192**	**$653,913,630**	**$668,874,589**

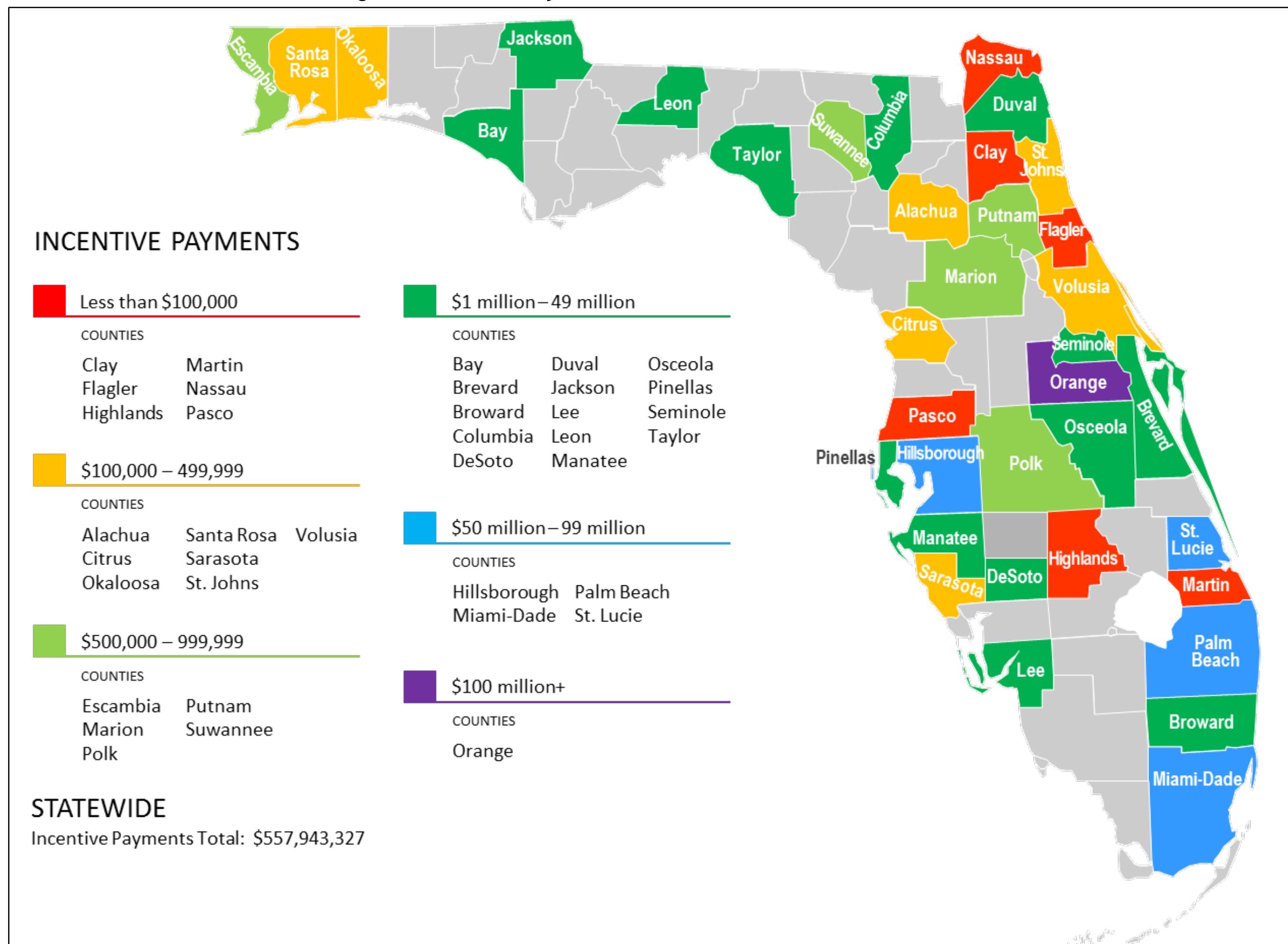
[1] Companies can take a credit against taxes paid.

[2] This total reflects the number of unique incentive projects, but does not include Enterprise Zone incentive recipients.

Source: OPPAGA analysis of Department of Economic Opportunity and Department of Revenue data.

As shown in Exhibit 1-6, incentives were distributed across 37 counties, with totals varying widely by county. For example, during the review period, 6 counties received total incentives of less than $100,000, while 14 received between $1 million and $49 million. Only one county, Orange, received total incentives exceeding $100 million.

Exhibit 1-6
In Fiscal Years 2009-10 Through 2011-12, Projects in 37 Counties Received Incentives[1, 2]



[1] One project could not be allocated to a single county; the incentive amounted to $21.5 million.

[2] Enterprise Zone Program incentives are not included in the exhibit.

Source: OPPAGA analysis of Department of Economic Opportunity data.

Administrative costs. For Fiscal Years 2009-10 through 2011-12, the four state-level entities with incentive program responsibilities reported $6.2 million in administrative costs. The Department of Economic Opportunity had the highest estimated costs, at $4.4 million, while the Department of Financial Services had the lowest, at less than $6,000. (See Exhibit 1-7.)

Exhibit 1-7
Agency Administrative Costs for Economic Incentives Totaled $6.2 Million in Fiscal Years 2009-10 Through 2011-12

Agency	Administrative Costs
Department of Economic Opportunity	$4,382,598
Department of Revenue	1,549,416
Enterprise Florida, Inc.	310,500
Department of Financial Services	5,658
Total Administrative Costs	**$6,248,172**

Source: OPPAGA analysis of data from Enterprise Florida, Inc., and the Departments of Economic Opportunity, Financial Services, and Revenue.

Findings

Incentives Are Important, But Not the Only Factor in Businesses' Decisions to Expand or Locate in Florida; the Majority of Recipients Are Existing In-State Businesses

To better understand businesses experiences with the state's economic incentive programs and the role incentives play in expansion and location decisions, OPPAGA surveyed businesses that received incentives for a single project during Fiscal Years 2009-10 to 2011-12 as well as local economic development organization representatives.[11] In addition, OPPAGA interviewed businesses that pursued multiple projects during this timeframe as well as site selection consultants that assist businesses with location decisions and incentive applications.[12]

Incentives are important, but businesses consider many other factors when making project decisions. Businesses consider a range of issues when evaluating locations for new projects. Site selection consultants noted that companies' initial criteria include infrastructure, permitting, workforce, utilities, land, taxes, quality of life, and economic incentives. As many as 25 states or locations may be considered at first, and as information and discussions with client companies occur, the number of sites is typically reduced to two or three finalist locations.

Our interviews and surveys found that incentives are one of several considerations for business that are developing a preliminary pool of states for potential project sites. Businesses that OPPAGA surveyed and interviewed evaluated a range of business climate considerations that affected their initial considerations and were asked to select the most important factors. When asked to identify the three most important factors that affected their company's decision to remain, locate, or expand in Florida, businesses that received incentives for a single project and responded to the question cited state economic development incentives (55%), local economic development incentives (41%), and the company's existing presence in Florida (45%) as the most important factors. Site consultants and businesses that obtained incentives for multiple projects reported that they considered incentives secondarily and that the state's labor force, regulatory climate, and tax environment were primary considerations.

When asked how important incentives were to the final location decision, 74% of the businesses that received incentives for a single project and responded to the question said incentives were one among many factors, as opposed to being the key decision factor. Businesses that received incentives for multiple projects responded similarly. According to site selection consultants, when site characteristics are equal, incentives become very important.

When asked what role incentives play, 73% of the businesses that received incentives for a single project and responded to the question reported that incentives helped increase the financial feasibility of a project. This is generally consistent with our interviews with businesses that obtained state incentives for multiple projects, as well as site selection consultant interviews. In particular, consultants reported that location significantly influences the cost of doing business. As such, incentives are often used to offset other costs, such as training needs or infrastructure improvement.

---

[11] We surveyed 144 of the businesses that received incentives for a single project during the evaluation period; 74 (51%) provided partial responses and 54 (38%) provided complete responses. Most respondent businesses were small or medium-sized firms, with a median national firm size of 300 FTE and median Florida firm size of 170 FTE. We also surveyed 122 local economic development organization representatives; 78 (64%) provided partial responses and 71 (58%) provided complete responses. Respondents were from organizations across the state and included local enterprise zone coordinators.

[12] We interviewed representatives from 7 of the 16 (44%) companies that received state incentives for multiple projects during our timeframe. These were large national or multi-national companies, representing a range of industries (e.g., shipping, manufacturing, financial operations, and retail). In addition, Enterprise Florida, Inc., provided us a list of eight site selection consultants known to frequently conduct business in Florida; we interviewed five (62.5%). The consultants reported that they typically work with large national or multi-national companies.

To the extent that incentives balance location-driven costs, it would seem likely that without incentives, many businesses would not select Florida. However, when asked what would have been the effect on their company's plans to conduct their project in Florida had incentives not been awarded, 64% of businesses responding to the question would have proceeded with their project even without the state incentives. Specifically, 42% of respondents said that without incentives, their company would have proceeded with their project in Florida on a smaller scale, and 22% said that they would have proceeded in Florida with no changes to the project. These findings are consistent with businesses' assertion that incentives are but one of many considerations for project location decisions.

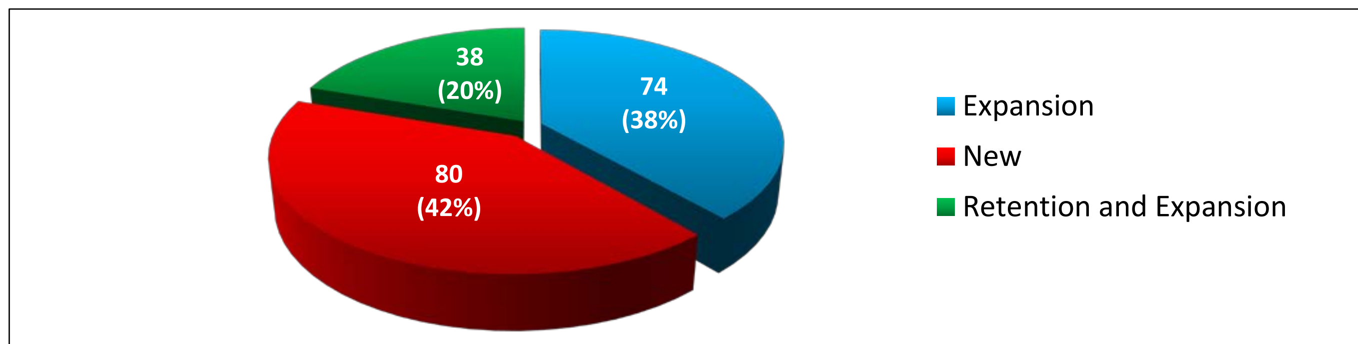
Despite the availability of incentives in Florida, many businesses considered conducting their projects in other states. When asked if they considered pursuing their project in another state, many (56%) of the businesses responding to the question said they considered locating their project in another state; of these, 59% reported receiving an incentive offer from another state. Several of these respondents noted Texas (9, or 28%) and North Carolina (5, or 16%) as states that made incentive offers; other states cited were Alabama, Georgia, and New York. Similarly, businesses that pursued multiple projects in Florida reported considering other states for these projects, with Alabama, Georgia, and Texas being the most frequently mentioned locations.

Site selection consultants that we interviewed noted that although Florida presents a range of advantages, the state has several prominent disadvantages as a project location, which contributes to businesses often considering locations in other states. Disadvantages included high property taxes and energy and land costs. In addition, consultants reported that Florida has limited ready infrastructure across the state and a need for more skilled workforce in manufacturing and information technology industries. Other disadvantages to a Florida site were geographical, with the state's peninsular shape leading to high transportation costs to ship products to other parts of the country. According to site consultants, states that compete with Florida are mostly in the southeast: Alabama, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Texas, and Virginia.

Businesses generally sought incentives to expand their existing Florida operations. We asked businesses that received incentives for a single project to describe the type of project – start-up, expansion, or relocation. Businesses responding to this question most frequently (49%) reported that they sought incentives to expand an existing Florida business. Businesses that obtained incentives for multiple projects also generally noted that they sought incentives for in-state expansion, such as new distribution centers or company headquarters.

This is consistent with the project data provided by DEO. The majority of projects in our sample were expansions of existing Florida businesses rather than introduction of new companies to the state. Specifically, 58% of the projects involved either expansion of existing businesses or retention of existing businesses with the longer-term goal of expansion. (See Exhibit 1-8.)

Exhibit 1-8
The Majority of Projects that Received Incentives in Fiscal Years 2009-10 Through 2011-12 Were Expansions of Existing Florida Businesses



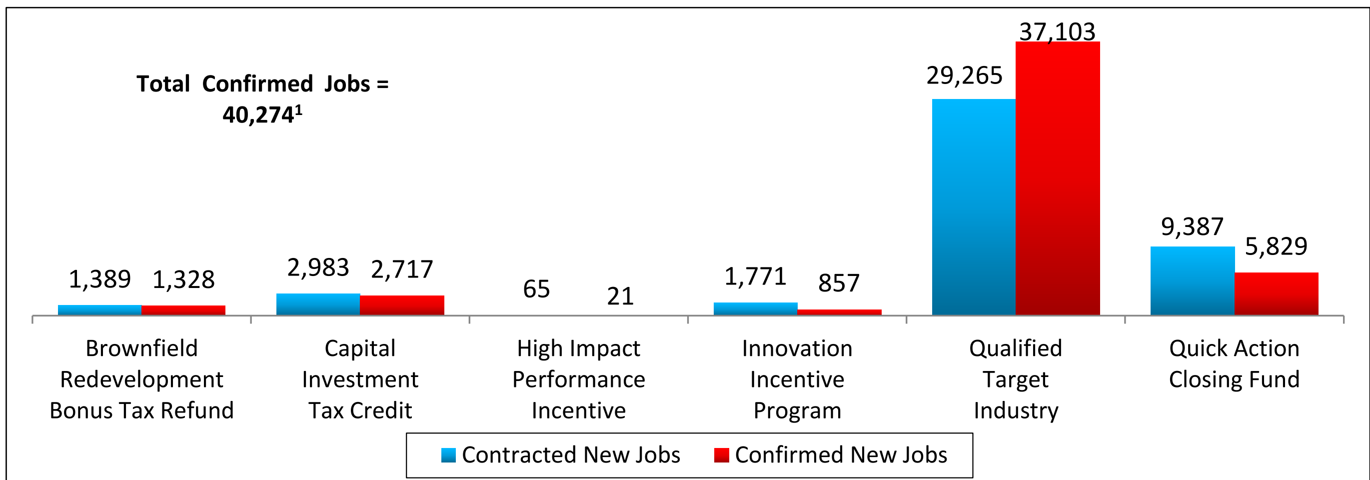
Source: OPPAGA analysis of Department of Economic Opportunity data.

Overall, Incentive Recipients Have Exceeded Job Creation and Capital Investment Requirements; However, Achievement of Performance Goals Varies Significantly by Program

Projects that received incentives between Fiscal Years 2009-10 and 2011-12 created 40,274 new jobs; this amount comprises all jobs, including those created prior to the three-year period. This exceeds the contracted new job requirement (34,429) by 17%.

Of the six incentive programs that have contractual job creation goals, only the Qualified Target Industry Tax Refund Program exceeded requirements. QTI recipients were contracted to create 29,265 jobs and the Department of Economic Opportunity confirmed 37,103 new jobs; this represents 26.8% greater employment than anticipated. Conversely, the High Impact Performance Incentive Program, which is contracted to create 65 jobs, has created 21 (32.3% of the contracted new jobs) to date. However, the HIPI projects included in the analysis are still active. As noted earlier, DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules. (See Exhibit 1-9.)

Exhibit 1-9
Projects that Received Incentives in Fiscal Years 2009-10 Through 2011-12 Have Created Over 40,000 Jobs[1]



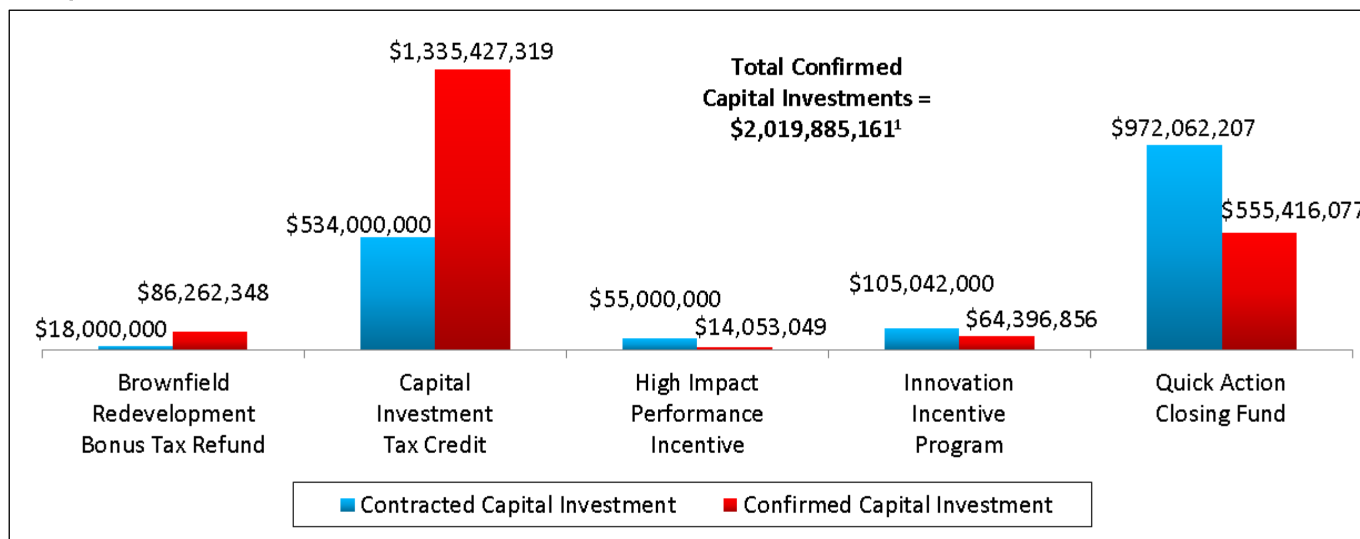
[1] Projects include those with an active status. DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules. Projects receiving funds for multiple incentive programs can count the same jobs across programs. This figure represents an unduplicated count of confirmed new jobs.

Source: OPPAGA analysis of Department of Economic Opportunity data.

A similar trend emerged for capital investment requirements. Projects that received incentives between Fiscal Years 2009-10 and 2011-12 made $2 billion in capital investments; this amount comprises all investments, including those made prior to the three-year period. This exceeds the contracted capital investment requirement ($1.5 billion) by 32.4%.

Of the five incentive programs that have contractual capital investment goals, only the Brownfield Redevelopment Bonus Refund and Capital Investment Tax Credit programs exceeded requirements. Brownfield bonus recipients were contracted to invest $18 million, and DEO confirmed $86.3 million in expenditures; this represents 379.2% greater investment than anticipated. Similarly, CITC recipients were contracted to invest $534 million and confirmed expenditures were $1.3 billion, a difference of 150.1%. As with job creation goals, the High Impact Performance Incentive Program's confirmed capital investments are less than the contracted amounts, $14.1 million compared to $55 million. As noted above, the HIPI projects are currently active and in good standing with regard to adhering to contract performance schedules. (See Exhibit 1-10.)

Exhibit 1-10
Projects that Received Incentives in Fiscal Years 2009-10 Through 2011-12 Have Made More than $2 Billion in Capital Investments[1]



[1] Projects include those with an active status. DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules.

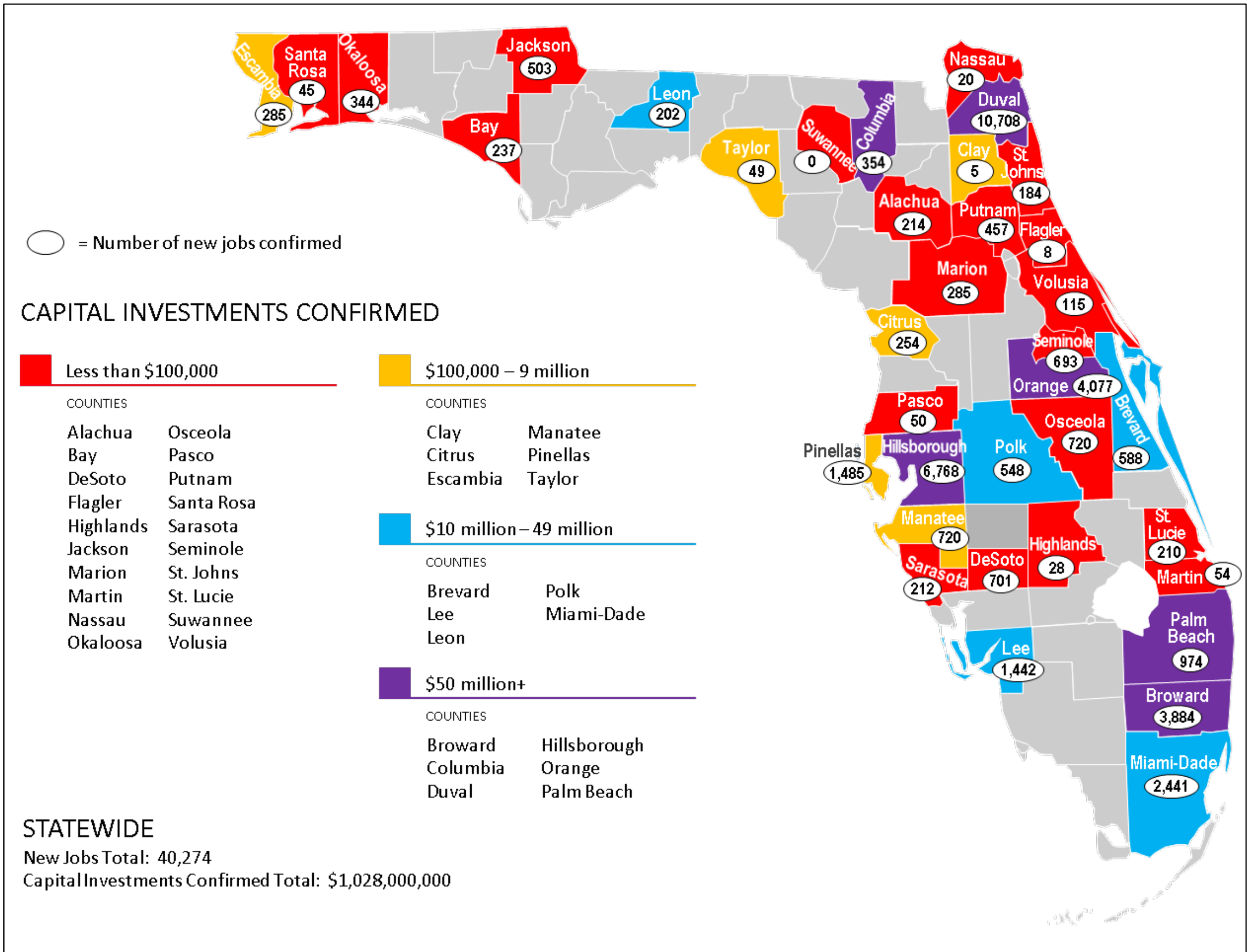
[2] Projects receiving incentives from multiple programs can count the same amount of capital investment across programs. This figure represents an unduplicated count of confirmed capital investment.

Source: OPPAGA analysis of Department of Economic Opportunity data.

The statewide distribution of confirmed jobs and capital investments includes 37 counties, with amounts in both performance categories varying widely by county.[13] For example, with regard to job creation, the number of confirmed new jobs ranged from 0 in Suwanee County to 10,708 in Duval County. In addition, capital investment totals differed greatly, with most counties (20) hosting projects that made capital investments of less than $100,000. Six counties had projects that made capital investments exceeding $50 million. (See Exhibit 1-11.)

[13] Not all of the 192 projects within our sample were required to make capital investments as part of incentive agreements.

Exhibit 1-11
Confirmed New Jobs and Capital Investments Varied Across Counties for Projects that Received Incentives in Fiscal Years 2009-10 through 2011-12[1, 2, 3]



[1] One project could not be allocated to a single county; confirmed capital investments amounted to $1 billion, with 411 new jobs.

[2] Not all of the 192 projects within our sample were required to make capital investments as part of incentive agreements.

[3] Projects include those with an active status. DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules.

Source: OPPAGA analysis of Department of Economic Opportunity data.

Some Incentive Programs Have Not Yet Achieved Other Legislative Goals

In addition to supporting job creation and capital expenditures, some of the state's economic incentive programs have other legislative goals. For example, along with its economic development goals, the Enterprise Zone Program is intended to revitalize and rehabilitate distressed areas and enhance social well-being in the zones. The Innovation Incentive Program is intended to support projects that serve as catalysts for emerging or evolving technology clusters, including creating spin-off companies. Neither incentive program has fully achieved these goals.

Selected enterprise zones generally underperform when compared to similar non-zone areas. The purpose of the Enterprise Zone Program is to establish a process that identifies severely distressed areas and to provide state and local economic incentives to both businesses and homeowners in those areas, with the goal of inducing private investment and enabling revitalization. In analyzing the degree to which such improvements have occurred, we reviewed Department of Economic Opportunity and U.S. Census data to compare changes in business, employment, and wage growth within five selected enterprise zones (Gulf County, Jacksonville, Miami-Dade County, Okeechobee County, and Tallahassee/Leon County); in Fiscal Years 2009-10 through 2011-12, these zones received sales and use tax credits and refunds totaling $73.8 million, which represents 66.5% of the incentives received statewide during the period. We also reviewed median home values, median household income, unemployment rates, and poverty rates in the same five zones and compared this information to the data for similar non-enterprise zone census tracts.

Our analysis found low to mixed results, with the selected enterprise zones meeting some legislative goals but falling short for others. In one of our analyses, two out of five enterprise zones outperformed similar non-zone comparison areas. In our other three analyses, only one of five enterprise zones outperformed similar comparison areas. These results indicate that while there were some successes, in general, the Enterprise Zone Program has not met legislative goals.

According to DEO employment data, between 2005 and 2012, the number of businesses and jobs decreased within the five enterprise zones, but average wages increased. In addition, these growth rates varied significantly among the five zones. For example, wage growth ranged from 3.6% (Gulf County) to 18.8% (Miami-Dade County).

When assessing median home values, we determined that all five zones experienced increases between the 2000 and 2010 Census. However, in 2010 only two of the five enterprise zones (Miami-Dade County and Okeechobee County) had smaller percentages of personal residences valued at $100,000 or less when compared to similar non-zone areas. This shows that there was not an across-the-board increase in property values in enterprise zones that was greater than the increases that occurred in the comparison groups.

Another measure of enterprise zone economic impact is median household income. Our comparison of 2000 and 2010 Census data for the five selected zones and similar non-enterprise zone areas shows that in all selected enterprise zones, median household incomes have increased. However, only one enterprise zone, Miami-Dade County, showed an increase that exceeded that of its comparison non-enterprise zone area.

Unemployment rates increased in four of the five enterprise zones. When comparing enterprise zones to non-enterprise zone areas, Gulf County was the only zone that had a lower unemployment rate than its comparison non-zone area. For poverty rates, enterprise zones also generally fared worse than comparison non-enterprise zone areas. Four of the selected enterprise zones had higher poverty rates in 2010 than in 2000. Moreover, four enterprise zones had poverty rates that exceeded similar non-enterprise zone areas; rate differences ranged from 1% to 12%.

The state's biotechnology clusters are growing slowly; no spinoffs have been created. An industry cluster is generally defined as a geographic concentration of "interconnected companies and institutions in a particular field."[14] Industry clusters are important for economic development, as businesses and research institutes often prefer to locate in areas that already have similar enterprises in order to collaborate and draw upon existing labor markets.

---

[14] Michael E. Porter, "Clusters and the New Economics of Competition," *Harvard Business Review*, November-December 1998, p. 78. Although institutions in a cluster may be physically close, technology can also allow distant institutions to engage in collaboration.

A 2010 OPPAGA report found that biotechnology clusters had not grown substantially in the six counties where Innovation Incentive Program recipients had established facilities.[15] The report measured biotechnology growth in each county between the time the research institutes were established and December 2008. Our 2013 follow-up review measured biotechnology business and employment growth between December 2008 and December 2011 and found mixed results.[16] The six counties experienced varying rates of business and employment growth within the research and development in the biotechnology sector. Hillsborough, Palm Beach, and St. Lucie counties had the largest increases in business growth, while Orange, Palm Beach, and St. Lucie counties had the largest increases in employment growth. However, some counties experienced small increases or declines during the same period, especially with regard to business growth.

In addition, current Innovation Incentive Program recipients have not created spin-off companies. As part of many incentive agreements, recipients are required to report the number of spin-off business created in Florida as a result of the commercialization of their research. For agreements signed after July 1, 2009, an additional performance condition requires innovation incentive recipients to reinvest up to 15% of net royalty revenues, including revenues from spin-off companies and from the sale of stock received from licensing or transferring inventions, methods, processes, and other patentable discoveries made at recipients' Florida facilities or using Florida-based employees. To date, recipients have created no spin-off companies.

As noted in both OPPAGA reports, biotechnology cluster development can take many years, and while Florida has the potential for additional growth, it faces challenges. The major challenge to furthering cluster development is fostering an environment that translates discoveries into marketable products. Florida and national experts reported that this could be accomplished by supporting spin-off and start-up companies, establishing more incubators and laboratories, linking research ideas with entrepreneurial talent, and conducting additional marketing of the state's biotechnology industry and the Innovation Incentive Program.

DEO's Process for Administering and Monitoring Incentive Programs Could Be Improved

Our review of the Department of Economic Opportunity's administration of economic incentive programs yielded findings similar to those highlighted by recent internal and external reviews. Specifically, DEO's documentation and monitoring processes could be improved. In addition, surveys of incentive recipients and economic development organizations, as well as interviews of site selection consultants, found concerns about the program reporting requirements.

In 2012, DEO's inspector general conducted an internal review to evaluate the processes used to monitor the performance of incentive recipients; the review was two-phased, reviewing the processes of both the department's contractor (phase one) and the department (phase two).[17] The first phase of the audit noted several issues, with particular concern regarding the contractor's lack of internal quality assurance reviews and DEO's failure to formally evaluate the contractor's performance. The second phase of the audit cited changes that could enhance the effectiveness of the department's incentive-related activities, including improved operating policies and procedures and implementation of internal quality assurance procedures. Similarly, a recent external review completed in September 2013 identified various concerns about DEO's process for monitoring the performance of incentive recipients and noted that lack of proper evidential documentation of performance can result in payment of noncompliant incentive claims.[18] (See Exhibit 1-12.)

[15] *Biotechnology Clusters Developing Slowly; Startup Assistance May Encourage Growth*, OPPAGA Report No. 10-05, January 2010.

[16] *Florida's Biotechnology Industry Is Expanding; Cluster Growth Continues to Slowly Progress*, OPPAGA Report No. 13-06, March 2013.

[17] The reviews also included a survey of businesses that had received incentives. In general, survey respondents positively rated the contractor's performance. However, some respondents expressed concerns about the timeliness of the claims process and responsiveness of the contractor.

[18] This review was conducted by a private firm, Thomas Howell Ferguson, under a contract with DEO. The review period included performance claims submitted and processed between October 1, 2012 and June 30, 2013.

Exhibit 1-12
Several Reviews Have Identified Areas for Improving DEO's Administration and Monitoring of Incentive Programs

Internal and External Review Findings		
Internal Review – Phase One	**Internal Review – Phase Two**	**External Review**
The contractor lacks written operating policies and procedures and a training manual for the administration of contractual requirements.	Comprehensive written operating policies and procedures would ensure that staff is aware of processes necessary to accomplish the department's mission and goals.	There are inconsistencies in the nature of supporting documentation provided by companies related to jobs and wage information.
There is no evidence of the contractor performing internal quality assurance reviews.	An internal quality assurance procedure would enhance contract accountability and increase the chances that errors are detected.	DEO does not require businesses to provide source documentation to support their job and wage data.
There is no evidence of staff training by either DEO or the contractor.	Formalized training provided for all staff assigned to the incentive programs would help ensure that the incentives are being processed according to statutes and in a timely and efficiently manner.	Documentation requirements for capital expenditures vary by program, with contract provisions differing between the Quick Action Closing Fund Program and the Brownfield Redevelopment Bonus Refund Program.
There has been no evaluation of the contractor's performance by DEO; the department should implement more oversight and tracking of the contractor's work.	In future contracts DEO should require corrective action plans when the contractor fails to meet performance standards.	Supporting documentation for employee benefits is not sufficient and should include a detailed description of benefits, eligibility requirements, and a listing of employees including amounts contributed for the benefits of each.
Site visits scheduled every two years do not appear to be frequent enough and could delay corrective action when required; this could also result in client businesses being overpaid or impact future incentive program approvals.	Site visits scheduled every two years do not appear to be frequent enough and could delay corrective action when required; this could also result in client businesses being overpaid or impact future incentive program approvals.	There are no formal, documented policies and procedures for review of incentive claim applications, which could lead to inconsistencies in review procedures related to headcount, wage calculations, proper supporting documents, etc.
	DEO should consider ways to reduce the time it takes to finalize incentive claim packages before they are submitted for payment.	

Source: *Final Report: Management Review of Processes Associated With Tracking and Reporting Economic Development Incentive Programs' Performance Phase One—Contracted Services*, DEO, January 2012; *Final Report: Management Review of Processes Associated With Tracking and Reporting Economic Development Incentive Programs' Performance Phase Two—Division of Strategic Business Development*, DEO, March 2012; *Department of Economic Opportunity Strategic Business Development – Incentive Program Compliance and Assessment Review*, Thomas Howell Ferguson, September 2013.

Our examination of DEO incentive administration and monitoring processes identified similar issues. To evaluate the department's incentive monitoring activities and assess the completeness of incentive recipient project files, we reviewed 73 project files. The files included projects that received incentives from six of the seven programs currently under review; DEO does not maintain files for projects that receive Enterprise Zone Program incentives.

Our review found that several (11%) project files were deficient, missing either documentation or sufficient evidence related to performance requirements (e.g., jobs, wages, and capital expenditures). In one case, the entire project file was missing. File deficiencies included missing general project overview forms, contracts, local resolution documents, and decertification letters. Moreover, some of the files we reviewed lacked evidence of incentive recipient site visits, which are used to confirm job creation and capital investment.

In addition, the types of documents used as evidence of meeting performance requirements varied widely among the files reviewed. For example, evidence for jobs created and wages varied from incentive recipient generated spreadsheets in some files, to Department of Revenue unemployment compensation forms in others. Evidence of capital expenditures and tax payments was similarly inconsistent.

Various stakeholders also expressed concerns about DEO's program administration and incentive reporting requirements. For example, on our survey of incentive recipients, when asked to suggest improvements to the state's economic incentive programs, 32% of those that responded to the question cited the reporting process. Specific responses included the following.

- "Simplify/streamline reporting process."
- "Paperwork and proof of information required is arduous and borderline not worth the grants."
- "The process is overly bureaucratic, requiring extensive hours of preparation, amending, and follow-up."
- "Better examples of precise information needed. Standardized PDF form would be perfect with specific instructions."

Similarly, some site selection consultants that we interviewed reported that the incentive application and reporting process can be burdensome. One consultant said that the process for getting a final answer on an incentive package takes too long and is laborious, while another criticized the quality of DEO's incentive contracts, citing numerous errors (e.g., typographical and grammatical errors and incorrect dates) that the consultant's legal staff had to correct. Moreover, several consultants noted that Florida is at a competitive disadvantage with states that have a more streamlined approval process.

We also identified concerns about DEO's administration of a particular incentive program—the Brownfield Redevelopment Bonus Refund Program. The department is statutorily required to verify that the project site is in a designated brownfield area. However, our initial review of data provided by DEO did not allow us to make this determination for one-third of the brownfield projects in our sample. Specifically, information from the Department of Environmental Protection's brownfields database showed that of the 24 projects that received an incentive payment during Fiscal Years 2009-10 through 2011-12, 8 projects did not have sufficient location information to make a determination. To facilitate our confirmation of the location of these eight sites, we requested that DEO provide us additional information; the supplemental information was not sufficient for us to verify the projects' locations. Thus, we gathered information from other sources, including company websites and county property appraiser databases, and were able to confirm that all of the eight sites were in designated brownfield areas.

Recommendations

Based on our review of Department of Economic Opportunity administration and monitoring activities and the findings of three recent reviews, we recommend that DEO take the following steps to improve its management of state incentive programs.

Improve the quality and consistency of information used to document incentive program performance. The documentation that the department accepts as proof of contract performance is not standardized and varies significantly from project to project. To improve the consistency of the information submitted by incentive recipients and better facilitate businesses' compliance with reporting requirements, incentive contracts should clearly stipulate the documents that will be accepted as evidence of performance for employment, wages, capital investments, and taxes paid. These documents should be consistent across incentive programs and, to the extent possible, should include official data certified by other government agencies. For example, when applicable, proof of employment and wages could be limited to data from the Department of Revenue's Form RT-6, used by businesses to report employee wages.

Enhance written policies and procedures for review of incentive claims. Internal and external reviews have noted that neither DEO nor its former contractor had written policies and procedures for administering the state incentive program contract requirements. The absence of such policies and procedures can lead to inconsistencies in review procedures related to employment verification, wage calculations, and proper supporting documents; this could account for the inconsistencies that we noted during our file review. To address these concerns, DEO should develop comprehensive written policies and procedures to guide the incentives claims process for both DEO employees and third-party vendors. The procedures should also include internal quality assurance processes, which would likely increase documentation consistency, reduce errors, and help ensure that incentives are being administered in accordance with state law. Such policies and procedures could be used to train new DEO or contractor staff, which would also help to ensure that incentives are being paid and monitored appropriately.

Establish monitoring and evaluation procedures for overseeing the work of the new third-party monitor. According to audit reports, DEO did not conduct a formal evaluation of its former contractor's performance, which significantly limited the department's oversight and tracking of the contractor's activities and deliverables. Given that the department is in the process of selecting a new vendor in accordance with proviso in the 2013 General Appropriations Act, it is an appropriate time to develop a contract monitoring process and to incorporate the process into the contract. The monitoring could include annual performance evaluations, frequent status reports, and contract terms that provide for corrective action when the contractor fails to meet performance standards.

Ensure that documentation of incentive recipient eligibility is properly maintained in project files. We determined that for the Brownfield Redevelopment Bonus Refund Program, the department was unable to provide sufficient information to confirm that incentive recipients were located within designated brownfield areas. DEO's current due diligence process requires that if the applicant is applying for a brownfield incentive, the department should "identify any evidence provided that the site of the project is a brownfield pursuant to applicable law." In addition to reviewing such evidence, the department should contact the Department of Environmental Protection's Brownfield Redevelopment Program and request written confirmation that incentive applicants are in a designated brownfield area and have a site rehabilitation agreement. This written confirmation should be maintained in project files and reflected in DEO's incentive database.

Chapter 2: Capital Investment Tax Credit Program

Background

Program Creation and Development

Purpose. The 1998 Legislature created the Capital Investment Tax Credit Program (CITC) to encourage high-impact sector businesses to make a significant capital investment to build, expand, or locate physical facilities within Florida.[19] Qualifying businesses can reduce corporate income taxes or insurance premiums over a 20-year period through a tax credit based on the amount of capital investment or costs related to the acquisition or construction of a facility. Eligible expenses include the costs of acquiring, constructing, installing, equipping, and financing a qualifying project; this includes all obligations incurred for labor, contractors, subcontractors, and builders. The costs for architectural and engineering services, environmental studies, surveys, and site work can also be included.

CITC qualifying requirements vary based on investment amount and industry sector. There are three tiers for high-impact industries, with investment requirements ranging from $25 million to $100 million. The tier determines what percentage of a business's tax liability that project costs can offset. In addition, businesses in each of the three tiers must create at least 100 new jobs in Florida and continue to maintain employment goals each year from the commencement of operations. For target industries and headquarters, investment requirements range from $100 million to $250 million. These projects also have different annual credit amounts and credit limits as well as higher job requirements. (See Exhibit 2-1.)

Exhibit 2-1
Capital Investment Tax Incentive Qualifying Requirements and Benefits Vary

	Qualifying Project Types				
	High Impact Tier 1	High Impact Tier 2	High Impact Tier 3	Target Industry	Headquarters
Investment Required	$25 Million	$50 Million	$100 Million	$100 Million	$250 Million
Taxes that the Credit can be Applied Against	Corporate Income Tax or Insurance Premium Tax	Corporate Income Tax or Insurance Premium Tax	Corporate Income Tax or Insurance Premium Tax	Corporate Income Tax or Insurance Premium Tax	Corporate Income Tax
Jobs Requirement	100 New	100 New	100 New	100 New, 900 New or Retained	1,500 New
Annual Credit Amount	5% of Eligible Costs	5% of Eligible Costs	5% of Eligible Costs	50% of increased tax liability arising out of the project	Lesser of $15 million or 5% of eligible costs
Annual Credit Limit	50% of tax arising from project	75% of tax arising from project	100% of tax arising from project	50% of increased tax liability arising from project	$15 million per year
Credit Period	20 Years	20 Years	20 Years	5 Years	20 Years
Credit Carryover	None	None	Amounts not used within the 20-year period can be taken between years 21 and 30	None	Annual unused amounts can be carried forward within the 20-year period

Source: *Review of the Capital Investment Tax Credit*, Florida Senate Issue Brief 2012-204, September 2011.

[19] Section 220.191, *F.S.*

After the commencement of operations, businesses can seek corporate tax credits annually on the income generated by or resulting from the qualifying project. The credit is limited to 5% of the total amount of capital investment at the new or expanded facility, over 20 years.[20] The annual credit limit varies depending on tier level, ranging from 50% to 100% of the tax liability. For most projects, tax credits cannot be carried forward if not fully used in any one year; this provision is waived for tier 3 projects with $100 million in investments or headquarter projects with costs of $250 million.[21] In addition, tax credits are generally not transferable, with the exception of new solar panel manufacturing facilities meeting certain requirements.[22] However, state law allows credits to be used by companies or entities affiliated with the qualifying business as long as the credit amount does not increase or extend the period within which the credit can be used.[23]

History. The Legislature has enacted numerous changes to the Capital Investment Tax Credit Program since its inception. Specifically, the definitions of qualifying businesses and criteria for transferability have been amended several times.

Qualified Businesses. Every three years, Enterprise Florida, Inc., researches and recommends the business sectors that should be designated as high impact; the Department of Economic Opportunity makes the final decision regarding these designations.[24] High-impact sectors have evolved over time and currently include the following business sectors (designation dates).

- Transportation Equipment (Aviation/Aerospace) (1997)
- Information Technology (1999)
- Life Sciences (2002)
- Financial Services (2004)
- Corporate Headquarters (2006)
- Clean Energy (2008)

In addition, several significant amendments to the program allow businesses outside of the high-impact sectors to qualify for the tax credit. These significant amendments are described below.

Target Industry Business Sector. In 2005, CITC was expanded to allow target industry businesses to qualify. Like high-impact sectors, target industries are determined by DEO in consultation with EFI.[25] Target industry business sectors are determined through consideration of specified criteria, such as industry growth potential, industry stability, and average industry wages.[26] Target industries include all high-impact sectors and businesses working in homeland security and defense; target industry designations are reviewed every three years.[27]

---

[20] The income for the new or expanded facility must be segregated from that attributed to the business as a whole in order to calculate the tax credit.

[21] For tier 3 projects, if the credit is not fully used in any one year due to insufficient tax liability, the unused amounts may be used later in any one year or years beginning with the 21st year of operation and ending with the 30th year. Headquarter projects may carry forward unused credits during the 20-year period.

[22] To be eligible to transfer credits, the solar manufacturing facility must generate a minimum of 400 jobs within six months after commencement of operations with an average salary of $50,000. The transferring company must secure a certificate reflecting the tax credit amount transferred to the receiving company and must use the credit within one year.

[23] Section 220.191 (3) (c), *F.S.*

[24] At the time when CITC was created, there was not a set three-year schedule for reviewing high-impact designations. The three-year schedule was established by s. 20, Ch. 2010-147, *Laws of Florida*.

[25] Section 5, Ch. 2005-282, *Laws of Florida*.

[26] Section 288.106(2)(q), *F.S.*

[27] Section 288.106(2)(q), *F.S.*

Corporate Headquarters Facilities. In 2006, CITC was expanded to allow any business that located its corporate headquarters in Florida (in an enterprise zone or brownfield) to qualify for the credit, regardless of whether the business was in a high-impact or target industry business sector.[28] Tax credits for a corporate headquarters facility may only be taken against corporate income tax liability.

Transferability. Generally, CITC may not be transferred or sold to other businesses. However, the 2008 Legislature amended the program to allow certain qualifying projects to transfer unused tax credits.[29] To qualify to transfer a tax credit, the project must be a new solar panel manufacturing facility that generated at least 400 jobs within six months after commencing operations and paid an average annual salary of at least $50,000. In addition, the 2011 Legislature amended the program to allow certain tax credits to be used outside of the 20-year period following commencement of project operations.[30] The amendment only applies to high-impact sector projects that qualify for tier 3 ($100 million in capital investments). Companies can claim any unused credit amounts beginning in the 21st year after commencing operations, but not later than the 30th year after commencement.

Incentives Received

It is the responsibility of the business seeking a Capital Investment Tax Credit to demonstrate to the Department of Revenue that it meets the job creation and capital investment requirements required by law. State law requires that the business and DOR agree on the calculation of income for the credit each year. These agreements are in the form of a Technical Assistance Advisement, which is a binding opinion from DOR.

Once project construction is complete, the Department of Economic Opportunity must audit the business's eligible capital costs before it can take a Capital Investment Tax Credit. At that time, DEO may make changes to the original certified costs. Each year, the department reviews the status of qualifying projects to ensure job requirements are being met and to issue an annual credit letter detailing how much potential tax credit the business can take for that year.

Eight companies were Corporate Income Tax Credit participants during our project's timeframe, but only six of them claimed these credits during Fiscal Years 2009-10 through 2011-12. These projects have received a total of $60.6 million in credits; this amount comprises all claims made, including those made prior to the three-year period.

[28] Chapter 2006-55, *Laws of Florida*.

[29] Chapter 2008-227, *Laws of Florida*.

[30] Chapter 2011-223, *Laws of Florida*.

Program Performance

Contractual Performance Indicators

Corporate Income Tax Credit recipients are typically required to create specific numbers of new jobs as one condition for receiving annual credits. CITC projects do not have to seek a credit every year in the 20-year timeframe. Exhibit 2-2 shows that CITC recipients had created a total of 2,717 new jobs at the end of the three-year review period compared to 2,983 contracted new jobs (91.1% of contracted jobs). The difference between contracted jobs and confirmed jobs is due to companies having additional years of the project remaining. These companies have 20 years to achieve the total contracted jobs, and none of them has been receiving the credit for that length of time.

Exhibit 2-2
Projects that Received CITC Incentives in Fiscal Years 2009-10 Through 2011-12 Have Created Over 2,700 Jobs

Project Status	Number of Projects	Contracted New Jobs	Confirmed New Jobs
Completed	0	0	0
Active	8	2,983	2,717
Inactive	0	0	0
Total	**8**	**2,983**	**2,717**

Source: OPPAGA analysis of Department of Economic Opportunity data.

In addition to job creation, CITC agreements require that companies make minimum capital investments. Projects included in Exhibit 2-3 made $1.3 billion in confirmed capital investment compared to $534 million in contracted investments, a difference of 150.1%.

Exhibit 2-3
Projects that Received CITC Incentives in Fiscal Years 2009-10 Through 2011-12 Have Made Over $1.3 Billion in Capital Investments

Project Status	Number of Projects	Contracted Capital Investment	Confirmed Capital Investment
Completed	0	$0	$0
Active	8	534,000,000	1,335,427,319
Inactive	0	0	0
Total	**8**	**$534,000,000**	**$1,335,427,319**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Chapter 3: Qualified Target Industry Tax Refund Program

Background

Program Creation and Development

Purpose. The 1994 Legislature created the Qualified Target Industry Tax Refund Program (QTI) to encourage the recruitment or creation of high-paying, high-skilled jobs within specific industries.[31] In exchange for meeting job creation goals, eligible businesses receive refunds for certain state and local taxes, including: corporate income taxes; insurance premium taxes; taxes on sales, use, and other transactions under Ch. 212, *Florida Statutes*; intangible personal property taxes; ad valorem taxes; excise taxes; and communications services taxes.

Currently, the list of Qualified Target Industries includes clean technology, life sciences, information technology, aviation/aerospace, homeland security/defense, financial/professional services, emerging technologies, other manufacturing, and corporate headquarters. Call centers and shared service centers also may qualify if certain economic criteria are met, and special consideration is given to industries that facilitate the development of the state as a hub for domestic and global trade and logistics.

In addition to being within a qualified target industry, businesses must meet other criteria to be eligible for QTI incentives. These conditions include

- creating at least 10 jobs if the business is relocating to the state, or increasing employment by 10% if the business is expanding in the state;
- paying an annual wage of 115% of the average private sector wage in the area for which the business located or the statewide private sector average wage; and
- receiving a local government resolution of commitment to the business relocation or expansion and financial support amounting to 20% of the incentive amount.[32, 33]

Qualified Target Industry tax refund amounts are based on the number of jobs created, the percentage of annual average area wages paid, the expansion or location site, and whether the business is a designated high-impact sector business. Businesses that meet QTI Program eligibility requirements, produce the number of required jobs, and pay at least 115% of the average area annual wage receive a base tax refund of $3,000 per job ($6,000 per job in an enterprise zone or a rural community). As shown in Exhibit 3-1, there are also additional per job incentives when businesses meet other statutorily defined criteria. For example, projects located in a brownfield are eligible for an additional $2,500 per job through the Brownfield Redevelopment Bonus Refund Program. (See Chapter 4 for a discussion of the brownfield program.)

---

[31] Section 288.106, *F.S.*

[32] At the request of the local government and EFI, DEO may waive the wage requirement if the business is in a rural community, enterprise zone, brownfield, or is a manufacturing project located anywhere in the state and paying 100% of the average private sector wage in the area the business will locate.

[33] A business applying for the program can request exemption from the local financial support requirement if the project is located in a brownfield or a rural community. However, such an exemption would reduce the tax refund to 80% of the total tax refund allowed.

Exhibit 3-1
Qualified Target Industry Refund Amounts Increase When Specific Conditions Are Met

Criteria	Additional Per Job Refund Amount
Business pays 150% of the state average private sector annual wage	$1,000
Business pays 200% of the state average private sector annual wage	$2,000
Local government financial support is equal to the state's QTI incentive amount[1]	$1,000
Business is in a high-impact sector	$2,000
Business increases product exports through Florida seaports or airports by at least 10% in value or tonnage	$2,000
Business is located in a brownfield	$2,500

[1] The local financial support may be in the form of ad valorem tax abatement or the appraised market value of publicly owned land or structures deeded or leased to the QTI business.

Source: Section 288.106, *Florida Statutes.*

Several restrictions apply to tax refund amounts and distributions. For example, the single year refund amount cannot exceed $1.5 million ($2.5 million in an enterprise zone). Moreover, in any fiscal year, a business may not receive more than 25% of the tax refund amount specified in its agreement with the state.

History. The Legislature has enacted numerous changes to the Qualified Target Industry Tax Refund Program since its inception. In 2010, the Legislature expanded the definition of jobs to allow temporary employees to qualify as full-time equivalent positions; changed the definition of a new business by removing the requirement that the business must not have existed before beginning operations in Florida; and modified the criteria and considerations that Enterprise Florida, Inc., must use when identifying target industries.

In response to the Deepwater Horizon oil spill, the 2011 Legislature authorized DEO to waive wage or local financial support eligibility requirements between July 1, 2011 and June 30, 2014 for eight counties that were disproportionately affected by the disaster.[34] In addition, the Legislature modified the definition of economic benefit and required that special consideration be given to industries that facilitate the development of the state as a hub for domestic and global trade and logistics. Most recently, the 2013 Legislature removed the statutory restriction on the total refund amount; modified the application process; and eliminated the application evaluation criteria that the department must consider businesses' long-term commitment when reviewing applications.[35] Prior to the legislation, the total refund amount that a business received could not exceed $7 million ($7.5 million in an enterprise zone).

Incentives Received

By January 31st of each year, businesses must submit Qualified Target Industry tax refund claims along with documentation demonstrating performance during the previous calendar year. The Department of Economic Opportunity or its contractor verifies employment and wages, as well as payment of taxes eligible for refund. Once verification is complete, DEO submits a claims packet to the Department of Financial Services for its review, approval, and issuance of a refund.

Based on the verified information supplied in applications for Qualified Target Industry Tax Refunds, DEO submits its annual Legislative Budget Request for funds to satisfy future claims, the Legislature appropriates funds, and the funds become available after the beginning of the new fiscal year. The total

[34] The eight counties are Bay, Escambia, Franklin, Gulf, Okaloosa, Santa Rosa, Walton, and Wakulla.

[35] Chapter 2013-96, *Laws of Florida*.

amount of the tax refunds approved by the department in any fiscal year may not exceed the total amount appropriated. For Fiscal Year 2013-14, the Legislature appropriated a lump sum of $45.5 million to a group of economic development programs that includes the Qualified Target Industry Tax Refund Program. Of this amount, DEO proposes distributing $12.1 million to QTI incentives; this includes $11.9 million in obligated funds and $180,000 in contingency funds. The department also proposes distributing $1.1 million to QTI incentives with Brownfield Redevelopment Bonus Refunds; this includes $936,250 in obligated funds and $120,000 in contingency funds.

The 166 projects that received QTI tax refunds during Fiscal Years 2009-10 through 2011-12 have received a total of $54.1 million; this amount comprises all funds received, including payments made prior to the three-year period. Total contracted funds for the 166 projects amounts to $120.6 million. Fifteen of the 166 projects also received Brownfield Redevelopment Bonus Refunds. (See Chapter 4 for a discussion of the brownfield program.)

Program Performance

Contractual Performance Indicators

Qualified Target Industry Tax Refund recipients are contractually required to create a certain number of jobs that pay an annual average wage of at least 115% of the average private sector wage. At the conclusion of our three-year review period, recipients had created 37,103 new jobs, 26.8% more than the 29,265 new jobs that they were contracted to create. (See Exhibit 3-2.)

Exhibit 3-2
Projects with QTI Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Created Over 37,000 Jobs

Project Status	Number of Projects	Contracted New Jobs	Confirmed New Jobs
Completed	40	8,133	13,619
Active	97	16,851	19,811
Inactive	28	3,531	3,173
Terminated	1	750	500
Total	**166**	**29,265**	**37,103**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Other Analyses

Given the state's significant investment in Qualified Target Industries, we conducted location quotient and shift share analyses of some of these industries to gain a better understanding of how they are performing in Florida relative to regional, state, and national economic and employment trends.[36] We analyzed the six QTI industries that fall within the top 20 industries with the highest average annual wages in Florida: manufacturing; wholesale trade; information; finance and insurance; professional, scientific, and technical services; and management of companies and enterprises. These analyses found growth in two sectors—finance and insurance and professional, scientific, and technical services. Our analysis also showed that Florida's finance and insurance and management of companies and enterprises sectors outpaced national and industry employment trends.

For each of the six targeted industries we calculated location quotients to compare Florida's employment in each industry to national employment in each industry. Location quotients exceeding 1.0 indicate that Florida's level of employment in an industry exceeds the national level of employment in that industry. A positive change in location quotient from 2004 to 2012 indicates that the industry increased as a portion of Florida's economy relative to the national economy. Our analysis found that Florida's employment in four of the six industry sectors (manufacturing, wholesale trade, information, and management of companies and enterprises) was less than the national level in those sectors in 2012. However, three of these four industry sectors increased their location quotient between 2004 and 2012. (See Exhibit 3-3.)

[36] We calculated location quotients and shift-share analyses using Florida and national employment data.

Exhibit 3-3
Location Quotients for Six Florida Qualified Target Industries Show Growth for Several Sectors

Florida Industry (NAICS)	Location Quotient (2004)	Location Quotient (2012)
Manufacturing (31-33)	0.46	0.47
Wholesale Trade (42)	0.97	0.98
Information (51)	0.91	0.88
Finance and Insurance (52)	0.99	1.05
Professional, Scientific, and Technical Services (54)	1.00	1.00
Management of Companies and Enterprises (55)	0.69	0.73

Source: OPPAGA analysis of U.S. Bureau of Labor Statistics data.

We also conducted a shift-share analysis for each of the six selected QTI industry sectors. Shift-share represents how much of the employment growth or decline in the state industry was due to the national or state economy, the national or state level trend within the particular industry, and the state's characteristics. Shift-share is composed of the three components listed below. The change in employment between 2004 and 2012 equals the sum of the three components.

- **National (or State) Growth Share** is the change in employment due to the growth of the overall national or state economy. If the national or state economy is growing, then you expect to see a positive change in each industry in the state.
- **Industry Mix Share** is the change in employment due to the growth (or decline) of the overall industry in the nation or state relative to the growth (or decline) of the overall national or state economy.
- **Regional Shift** is the change in employment due to the state's characteristics (also referred to as "competitive share"). It is the most important component. A positive regional shift indicates the state industry is outperforming the national or state trend. A negative effect indicates that the state industry is underperforming compared to the national or state trend.

Our shift share analysis showed that Florida's finance and insurance sector and management of companies and enterprises sector outpaced national and industry employment trends, while manufacturing, wholesale trade, information, and professional, scientific, and technical services sectors all underperformed. (See Exhibit 3-4.)

Exhibit 3-4
Shift-Share Analysis for Six Florida Qualified Target Industries Shows the State Outpacing the Nation in Two Sectors

Florida Industry (NAICS)	Florida Employment Change (2004-2012)	National Growth Share	Industry Mix Share	Florida Shift
Manufacturing (31-33)	-72,184	7,729	-71,904	-8,009
Wholesale Trade (42)	-6,197	6,429	-5,616	-7,010
Information (51)	-33,653	3,327	-26,141	-10,839
Finance and Insurance (52)	-7,404	6,759	-21,366	7,203
Professional, Scientific, and Technical Services (54)	48,045	7,990	59,049	-18,994
Management of Companies and Enterprises (55)	14,297	1,380	11,171	1,745

Source: OPPAGA analysis of U.S. Bureau of Labor Statistics data.

Chapter 4: Brownfield Redevelopment Bonus Refund Program

Background

Program Creation and Development

Purpose. The 1997 Legislature created the Brownfield Redevelopment Bonus Refund Program to encourage redevelopment and job creation within designated brownfield areas.[37] Brownfield sites are abandoned, idled, or underused properties where expansion or redevelopment is complicated by actual or perceived environmental contamination. The program is voluntary and intended to achieve several environmental and economic development goals, including

- rehabilitating contaminated sites;
- preventing premature development of green space;
- reducing blight;
- reusing existing infrastructure;
- creating jobs; and
- increasing capital investment.

To be eligible for the Brownfield Redevelopment Bonus Refund, applicants must either be a qualified target industry business or demonstrate a fixed capital investment of at least $2 million in mixed-use business activities and provide benefits to its employees.[38] In addition, the proposed project must create at least 10 new full-time permanent jobs, not including any construction or site rehabilitation jobs.

The program provides a tax refund for each new job created in a designated brownfield. Eligible businesses receive tax refunds for certain state and local taxes paid, including corporate income taxes; insurance premium taxes; taxes on sales, use, and other transactions under Ch. 212, *Florida Statutes*; intangible personal property taxes; ad valorem taxes; excise taxes; and communications services taxes. Businesses may receive a tax refund up to 20% of the average annual wage for each new job created in a designated brownfield area up to a maximum of $2,500 per new job. Businesses certified by the Qualified Target Industry Program also may receive Brownfields Redevelopment Bonus Refunds of $2,500 per new job created. (See Chapter 3 for a discussion of the QTI Program.)

History. The Legislature has enacted numerous changes to the Brownfield Redevelopment Bonus Refund Program since its inception. For example, in 2009, the Legislature adopted language requiring the governing board of the county or city where the project will be located to adopt a resolution recommending that certain types of businesses be approved for program participation and added criteria requiring fixed capital investments of at least $500,000 in brownfield areas that do not require site cleanup.

---

[37] Section 288.107, *F.S.*

[38] According to state law, a "mixed-use project" is the conversion of an existing manufacturing or industrial building to mixed-use units that include artists' studios, art and entertainment services, or other compatible uses.

In response to the Deepwater Horizon oil spill, the 2011 Legislature authorized DEO to waive wage or local financial support eligibility requirements between July 1, 2011 and June 30, 2014 for eight counties that were disproportionately affected by the BP Gulf Oil Spill.[39]

Most recently, the 2013 Legislature made significant changes to the program, including amending the term "brownfield area eligible for bonus refunds" to specify that an eligible area is a brownfield site for which a rehabilitation agreement with the Department of Environmental Protection or a local government delegated by DEP has been executed under the Brownfields Redevelopment Act. The legislation also

- removed the requirement for capital investments of at least $500,000 in brownfield areas that do not require site cleanup;
- removed language that allowed for contiguous brownfield areas that may not be contaminated to be eligible for the program;
- added brownfield sites to the list of eligible redevelopment sites where building materials used to convert manufacturing or industrial buildings to housing units or mixed-use units are exempt from sales taxes; and
- removed the requirement of submitting a local resolution that recommends that a business be approved.

Incentives Received

By January 31st of each year, businesses must submit Brownfield Redevelopment Bonus Refund claims for refunds scheduled to be paid the following July 1st. The Department of Economic Opportunity or its contractor verifies required job information. Claims confirmation includes verifying employment and wage levels as well as the payment of taxes with the appropriate agency or authority, including the Department of Revenue or a local government. DEO approves claims for bonus refund payments and authorizes the refund amount for the fiscal year within 30 days of claim receipt.

Based on the verified claims information, DEO submits its annual Legislative Budget Request for funds to satisfy future claims and the Legislature appropriates funds that become available after the beginning of the new fiscal year. Appropriated funds to pay brownfield redevelopment bonuses are deposited into the Economic Development Incentives Account. The total amount of the bonus refunds approved by the department in any fiscal year may not exceed the total amount appropriated. The department monitors the amount of approved refunds compared to the amount appropriated. When approved refunds exceed the appropriation amount, DEO must determine the amount of each refund claim by dividing the amount appropriated for tax refunds by the projected total claims for the fiscal year; this calculation must be completed by July 15th of each year. For Fiscal Year 2013-14, the Legislature appropriated a lump sum of $45.5 million to a group of economic development programs that includes the Brownfield Redevelopment Bonus Refund Program. Of this amount, DEO proposed distributing $1 million to bonus refunds; this includes $893,125 in obligated funds and $120,000 in contingency funds.

The nine projects that received standalone Brownfield Redevelopment Bonus Refunds during Fiscal Years 2009-10 through 2011-12 have been paid a total of $1.9 million; this amount comprises all funds received, including payments made prior to the three-year period. Total contracted funds for the nine projects amount to $3.5 million.[40] (See Exhibit 4-1.)

---

[39] The eight counties are Bay, Escambia, Franklin, Gulf, Okaloosa, Santa Rosa, Walton, and Wakulla.

[40] In addition, 15 Qualified Target Industry Tax Credit projects received a brownfield bonus. See Chapter 3 for a discussion of the Qualified Target Industry Tax Refund Program.

Exhibit 4-1
In Fiscal Years 2009-10 Through 2011-12, Nine Businesses Received $1.9 Million in Brownfield Redevelopment Bonus Refunds

Company	County	Contract Date	Industry	Contracted	Received
Global Stevedoring, LLC	Duval	9/9/2005	Transportation/Warehousing	$112,500	$85,374
IKEA US East, LLC	Hillsborough	5/6/2008	Retail Trade	562,500	89,207
McKibbon Hotel Management, Inc.	Hillsborough	4/10/2007	Management of Companies	247,500	113,135
Publix Super Markets, Inc.	Miami-Dade	3/18/2005	Retail Trade	250,000	200,000
Samsonite Corporation	Duval	5/1/2007	Wholesale Trade	132,500	53,000
Target Corporation	Miami-Dade	1/31/2007	Wholesale Trade	362,500	250,157
Wal-Mart Stores East, LP – Auburndale	Polk	9/30/2005	Retail Trade	592,500	450,537
Wal-Mart Stores East, LP – Escambia	Escambia	5/14/2007	Retail Trade	500,000	239,500
Wal-Mart Stores East, LP – Inverness	Citrus	9/30/2005	Retail Trade	712,500	464,190
Total				**$3,472,500**	**$1,945,102**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Program Performance

Contractual Performance Indicators

Brownfield Redevelopment Bonus Refund recipients are contractually required to create at least 10 new full-time permanent jobs, not including any construction or site rehabilitation jobs. At the conclusion of our three-year review period, refund recipients had created 1,328 new jobs, or 95.6% of the 1,389 new jobs that they were contracted to create. More than half of the projects are active. DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules. (See Exhibit 4-2.)

Exhibit 4-2
Projects with Brownfields Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Created Over 1,300 Jobs

Project Status	Number of Projects	Contracted New Jobs	Confirmed New Jobs
Completed	4	667	656
Active	5	722	672
Inactive	0	0	0
Total	**9**	**1,389**	**1,328**

Source: OPPAGA analysis of Department of Economic Opportunity data.

In addition to job creation, Brownfield Redevelopment Bonus Refund recipients are required to demonstrate a fixed capital investment in mixed-use business activities.[41] The nine projects that received payments during our timeframe have made over $86.2 million in confirmed capital investment (379.2% more than of their contract amount). (See Exhibit 4-3.)

Exhibit 4-3
Projects with Brownfields Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Made Over $86 Million in Capital Investments

Project Status	Number of Projects	Contracted Capital Investment	Confirmed Investment
Completed	4	$8,000,000	$53,455,837
Active	5	10,000,000	32,806,511
Inactive	0	0	0
Total	**9**	**$18,000,000**	**$86,262,348**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Of the 24 brownfield projects (9 brownfield bonus standalone, 15 brownfield bonus and QTI) that received at least one incentive payment during Fiscal Years 2009-10 through 2011-12, 15 had confirmed contamination.[42] Information from the Department of Environmental Protection's brownfield database showed that of the 15, cleanup had been completed for 5 and was ongoing for 7 of the sites. The remaining three contaminated sites have restrictive covenants that provide site-specific controls for eliminating or managing potential exposure to contamination, including prohibitions on certain land uses (e.g., recreation and hotels or lodging).

[41] Recent legislation removed the requirement for capital investments of at least $500,000 in brownfield areas that do not require site cleanup. Thus, the current requirement is $2 million.

[42] Three of the 15 funded projects were at the same site location.

Chapter 5: High Impact Performance Incentive Grant Program

Background

Program Creation and Development

Purpose. The 1997 Legislature created the High Impact Performance Incentive (HIPI) Grant Program to increase Florida's competitive position by attracting, retaining, and growing high-impact businesses.[43] The economic benefits of the grant program include high quality employment opportunities and major capital investment in industries such as clean energy, biomedical technology, information technology, silicon technology, and transportation equipment manufacturing.

To be eligible for the grant program, a business must be certified as high impact. This process has two components. First, Enterprise Florida, Inc. selects and designates which sectors are high impact. Second, the Department of Economic Opportunity certifies businesses; DEO reviews applications, determines if companies are eligible (including assessing whether businesses fit into the high-impact sector designation), and enters into agreements.

HIPI Program qualifying guidelines vary based on amount invested and the industry sector. There are three tiers for non-research and development industries and three tiers for research and development industries. (See Exhibit 5-1.) Using these guidelines, the department may negotiate qualified HIPI grant awards for any single qualified high-impact business. The conditions that specify the commencement of operations and the grant amount that the business is eligible to receive are detailed in an agreement between the business and the Department of Economic Opportunity. Fifty percent of the grant funds are available upon certification of the commencement of operations; this commencement must occur with two years and six months of being certified as a high-impact business. To obtain the remaining 50% of funds, total employment goals and investment requirements must be achieved by the date specified in the company's agreement.

[43] Section 288.108, *F.S.*

Exhibit 5-1
High Impact Performance Incentive Guidelines Vary by Project Type

	Qualifying Project Types					
	Non-Research and Development Tier 1	Non-Research and Development Tier 2	Non-Research and Development Tier 3	Research and Development Tier 1	Research and Development Tier 2	Research and Development Tier 3
Investment	$50 Million	$100 Million	$800 Million	$25 Million	$75 Million	$150 Million
Jobs Creation	50 New	100 New	800 New	25 New	75 New	150 New
Total Performance Grant	$500,000 to $1 Million	$1 Million to $2 Million	$10 Million to $12 Million	$700,000 to $1 Million	$2 Million to $3 Million	$3.5 Million to $4.5 Million
Disproportionately Affected County Waiver	Between 7/1/11 and 6/30/14, the job requirement is waived for any business within Bay, Escambia, Franklin, Gulf, Okaloosa, Santa Rosa, Walton, or Wakulla counties for individual projects receiving $5 million with the approval of the Governor. Individual projects receiving between $5 million and less than $10 million require legislative approval.					
Payout Schedule	50% of grant upon certification by business that operations have commenced; remaining 50% of grant upon certification by business that operations have commenced and the full investment and employment goals have been met and verified.					

Source: Section 288.108, *Florida Statutes*, and *2012 Annual Incentives Report,* Department of Economic Opportunity.

History. The Legislature has made relatively minor changes to the High Impact Performance Incentive Grant Program since its inception. In 2009, the Legislature amended the statute to provide 10 days (formerly 5) for DEO to review the application and issue a letter of certification after receiving an application. The 2010 Legislature amended the statute to lower the capital investment and job creation requirement to encourage more business participation. A business with a lower cumulative investment of $50 million and 50 jobs and a research and development category making a cumulative investment of $25 million and 25 jobs is now eligible for grants.

Incentives Received

The total amount of active performance grants scheduled for payment in any single fiscal year cannot exceed $30 million or the specific amount appropriated by Legislature. Should the amount of the appropriation fall short of the payments obligated for the fiscal year, the Department of Economic Opportunity must determine the amount of payments that can be made and notify businesses by August 1st. For Fiscal Year 2013-14, the Legislature appropriated a lump sum of $45.5 million to a group of economic development programs that includes the High Impact Performance Incentive Grant Program.

The two projects that received initial HIPI grant payments during Fiscal Years 2009-10 through 2011-12 have received a total of $1.0 million. Total contracted funds for the projects amounts to $2.0 million. (See Exhibit 5-2.)

Exhibit 5-2
In Fiscal Years 2009-10 Through 2011-12, the State Paid $1 Million to Two HIPI Grants Recipients

Company	County	Contract Date	Industry	Contracted	Received
SunnyLand Solar, LLC	Leon	11/10/2010	Research and Development in the Physical, Engineering, and Life Sciences	$1,000,000	$500,000
SolarSink, LLC	Leon	11/22/2010	Research and Development in the Physical, Engineering, and Life Sciences	$1,000,000	$500,000
Total				**$2,000,000**	**$1,000,000**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Program Performance

Contractual Performance Indicators

High Impact Performance Incentive Grant agreements require that companies create specific numbers of new jobs as one condition for receiving grants. Exhibit 5-3 shows that the two recipients had created a total of 21 new jobs at the end of the three-year review period compared to 65 contracted new jobs (32.3%). However, the HIPI projects included in the analysis are still active. As noted earlier, DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules.

Exhibit 5-3
Projects with HIPI Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Created 21 Jobs

Project Status	Number of Projects	Contracted New Jobs	Confirmed New Jobs
Completed	0	0	0
Active	2	65	21
Inactive	0	0	0
Total	**2**	**65**	**21**

Source: OPPAGA analysis of Department of Economic Opportunity data.

In addition to job creation, HIPI contracts require that companies make minimum capital investments. The two projects that received payments during our timeframe have made over $14 million in confirmed capital investment (25.6% of their target). To receive the balance of the performance grant by the negotiated due dates, these companies will have to document a total of $55.0 million in capital investment, along with the jobs specified above. (See Exhibit 5-4.)

Exhibit 5-4
Projects with HIPI Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Made $14 Million in Capital Investments

Project Status	Number of Projects	Contracted Capital Investment	Confirmed Investment
Completed	0	$0	$0
Active	2	55,000,000	14,053,049
Inactive	0	0	0
Total	**2**	**$55,000,000**	**$14,053,049**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Chapter 6: Quick Action Closing Fund Program

Background

Program Creation and Development

Purpose. The 1999 Legislature created the Quick Action Closing Fund Program (QAC) to enable the state to compete effectively for high-impact business facilities, critical private infrastructure in rural areas, and key businesses in economically distressed urban and rural communities.[44] The program also is intended to maximize the state's ability to mitigate the negative impacts of the conclusion of the space shuttle program and the gap in civil human space flight. Program funding is used as a tool to finalize negotiations for highly competitive projects where Florida is at a competitive disadvantage.

QAC is a discretionary grant incentive that the Governor can access to respond to projects with unique requirements. The incentive may be utilized to compensate for "distinct quantifiable disadvantages" after other available resources have been exhausted. To be eligible for funding from the Quick Action Closing Fund, each project must be in a qualified target industry; have a positive economic benefit ratio of at least five to one; be an inducement to locate or expand in the state; pay an average annual wage of at least 125% of the area-wide or statewide private sector average wage; and be supported by the local community where the project is to be located. These criteria may be waived under extraordinary or special circumstances. For example, a project not meeting all criteria could nevertheless be found to benefit the local or regional economy in a rural area of critical economic concern.

Enterprise Florida, Inc., and the Department of Economic Opportunity jointly review QAC program applications to determine project eligibility. The department evaluates proposals for high-impact business facilities. The evaluation must include the following information.

- Description of the facility
- Number of jobs to be created
- Estimated average annual employee wages
- Statement of any special impacts the facility is expected to stimulate in a particular business sector in the state or regional economy or in the state's universities and community colleges
- Financial analysis of the company
- Historical market performance of the company
- Any independent evaluations and audits of the company
- Statement of the role the incentive is expected to play in the applicant's decision to locate or expand in Florida

Within seven business days of evaluating a project, the department makes a recommendation to the Governor for approval or disapproval. When recommending approval, the department must include proposed performance conditions the project must meet to receive incentive funds.

[44] Section 288.1088, *F.S.*

A business that receives funding must enter into a contract with DEO. The contract must include the total incentive amount and performance conditions the company must meet to receive the funds, such as net new employment, average salary, and capital investment. The contract must also include sanctions for failure to meet these conditions and a statement that payment of funds is contingent on legislative appropriations. Contracts typically require a company to meet certain conditions, such as leasing or purchasing property, before the funds are transferred to an escrow account. Incentive funds are paid out of the escrow account after the business has performed additional actions, such as making a public announcement about the project, making a minimum capital investment, and creating a minimum number of jobs.

History. The Legislature has enacted several statutory changes to the Quick Action Closing Fund Program since its inception. For example, in 2002, QAC was one of numerous economic development programs that the Legislature included in a public records exemption that covered program recipients' identifying information, trade secrets, financial information, and proprietary business information.[45] In 2003, the Legislature gave the Governor the authority to transfer unencumbered program funds to other economic development programs in emergencies or special circumstances and in consultation with the President of the Senate and the Speaker of the House of Representatives.[46] However, in 2006, the Legislature repealed this provision, specified eligibility requirements noted earlier, and directed EFI to evaluate the quality and value of each applicant.[47]

Finally, in 2011, the Legislature specified the roles of the Department of Economic Opportunity and Enterprise Florida, Inc., in the application review and evaluation process, requiring DEO to recommend approval or disapproval to the Governor within seven business days after evaluating a project and authorizing the Governor to approve projects that require less than $2 million in funding without consulting the Legislature.

Incentives Received

The Governor may approve Quick Action Closing Fund projects requiring less than $2 million without consulting the Legislature. For projects requiring at least $2 million but no more than $5 million, the Governor must provide a written description and evaluation to the chair and vice chair of the Legislative Budget Commission at least 10 days prior to final approval. The recommendation must include the proposed performance conditions the project must meet to receive funds.[48] The Legislative Budget Commission must approve funding for any project requiring more than $5 million. For Fiscal Year 2013-14, the Legislature appropriated a lump sum of $45.5 million to a group of economic development programs that includes the Quick Action Closing Fund. Of this amount, DEO proposes distributing $28.9 million to QAC incentives.

The 41 projects that received QAC payments during Fiscal Years 2009-10 through 2011-12 have received a total of $72.3 million; this amount comprises all funds received, including payments made prior to the three-year period. Total contracted funds for the 41 projects amount to $78.2 million. In addition, 33 of the 41 projects were also approved to receive funding from the Qualified Target Industry Tax Refund Program. (See Chapter 3 for a discussion of the QTI program.)

---

[45] Chapter 2002-68, *Laws of Florida*.

[46] Chapter 2003-270, *Laws of Florida*.

[47] Chapter 2006-55, *Laws of Florida*.

[48] If the chair, the vice chair, the President of the Senate, or the Speaker of the House of Representatives timely advises the Governor that such action exceeds the Governor's delegated authority or is contrary to legislative policy or intent, the Executive Office of the Governor is to void the release of funds and instruct the department to immediately change such action or proposed action until the commission or the legislature addresses the issue.

Program Performance

Contractual Performance Indicators

Quick Action Closing Fund contracts typically require that companies create specific numbers of new jobs as conditions for receiving funds or avoiding sanctions after receiving funds. Exhibit 6-1 shows that the 41 fund recipients had created a total of 5,829 new jobs at the end of the three-year review period.

For the two completed projects, there were 1,051 confirmed new jobs compared to 1,160 contracted new jobs. Among the 37 active projects, there were 4,778 confirmed new jobs compared to 7,367 contracted new jobs. As noted earlier, DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules.

Exhibit 6-1
Projects with QAC Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Created Over 5,800 Jobs

Project Status	Number of Projects	Contracted New Jobs	Confirmed New Jobs
Completed	2	1,160	1,051
Active	37	7,367	4,778
Inactive	1	410	0
Terminated	1	450	0
Total	**41**	**9,387**	**5,829**

Source: OPPAGA analysis of Department of Economic Opportunity data.

In addition to job creation, Quick Action Closing Fund contracts often require that companies make minimum capital investments. The two completed projects made $74,714,495 in confirmed capital investment compared to $75,700,000 in contracted investment. (See Exhibit 6-2.)

Exhibit 6-2
Projects with QAC Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Made over $555 Million in Capital Investments

Project Status	Number of Projects	Contracted Capital Investment	Confirmed Investment
Completed	2	$75,700,000	$74,714,495
Active	37	874,212,207	480,701,583
Inactive	1	2,150,000	0
Terminated	1	20,000,000	0
Total	**41**	**$972,062,207**	**$555,416,078**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Chapter 7: Innovation Incentive Program

Background

Program Creation and Development

Purpose. The 2006 Legislature created the Innovation Incentive Program to respond expeditiously to economic opportunities and compete for high-value research and development, innovation business, and alternative and renewable energy projects.[49, 50] The program provides funds to research and development projects that conduct basic and applied research in the sciences or engineering, as well as design, develop, and test prototypes or processes. These projects must serve as catalysts for the growth of existing or emerging technology clusters. To date, the program has targeted primarily biotechnology businesses, although it signed a funding agreement with an aircraft-manufacturing firm in 2013 for a research and development center. Florida has aggressively pursued developing a biotechnology industry to diversify the state's economy and create high skill, high wage jobs.[51]

The Innovation Incentive Program provides grants to qualified companies that the Governor approved after consultation with the Legislature. All innovation incentive projects must have a performance-based contract with the state that includes specific milestones that a company must achieve in order for it to receive grant payments. These contracts also include a reinvestment requirement, by which recipients must remit a portion of their royalty revenues back to the state for reinvestment in certain state trust funds.

To qualify for the program, an applicant must at a minimum establish that the jobs created by the project pay an estimated annual average wage of at least 130% of the average private sector wage.[52] In addition, a research and development project must

- serve as a catalyst for an emerging or evolving technology cluster;
- demonstrate a plan for significant higher education collaboration;
- provide a minimum cumulative break-even economic benefit within a 20-year period; and
- receive a one-to-one match from the local community.

History. The Legislature has enacted several statutory changes to the Innovation Incentive Program since its inception. For example, in 2009, the legislature imposed a minimum employment level of at least 35 direct new jobs for each alternative and renewable energy project.[53] It further required Enterprise Florida, Inc., to evaluate proposals for all categories of awards and included additional evaluative criteria for alternative and renewable energy projects. Finally, the 2009 legislation added several provisions that

---

[49] Section 288.1089, *F.S.*

[50] An innovation business is a business that is expanding or locating in Florida that is likely to serve as a catalyst for the growth of an existing or emerging technology cluster or will significantly impact the regional economy in which it is to expand or locate.

[51] Biotechnology refers to the use of cellular and molecular processes in solving problems and developing products. Advances in biotechnology processes and products have many applications, such as better diagnosing and treating human diseases and improving agricultural crops.

[52] EFI may request a waiver of this requirement for a project located in a rural area, a brownfield area, or an enterprise zone when the merits of the project warrant such action.

[53] Chapter 2009-51, *Laws of Florida*.

must be included in contracts between the state and program recipients, such as payment of above-average wage levels, reinvestment of royalties and other revenues into certain state trust funds, and submittal of quarterly and annual reports to the state agency administering the program.[54]

In 2010, the Legislature amended the statutory definition of jobs to include positions obtained from a temporary employment agency or employee leasing company or through a union agreement or co-employment under a professional employer organization agreement.[55] In 2011, the Legislature transferred Enterprise Florida, Inc.'s, authority to review program proposals to the Department of Economic Opportunity, which was created through the same legislation.[56] In 2013, the Legislature changed the requirement that an applicant provide the state with, at minimum, a break-even return on investment within 20 years to a cumulative break-even economic benefit within 20 years.[57]

In addition, to these legislative changes, there have been Innovation Incentive Program shifts at the agency level. Although the law that created the program does not specifically direct that grants be awarded to biotechnology companies, it was enacted when Florida was actively trying to develop its biotechnology industry. Consequently, the first seven grant recipients were non-profit biotechnology research institutes that were new to the state. However, the most recent recipients include a for-profit biotechnology company and an aerospace manufacturing company, which appears to indicate a shift in program emphasis.

Incentives Received

The Department of Economic Opportunity assesses the performance of companies that receive incentive funds on an annual basis. The assessment varies for each program recipient depending on the requirements specified in its contract. Companies also submit wage information and lists of equipment purchases to the department if required to do by their contracts. Further, each participating company hires an independent auditor to review its financial information, and all participating companies provide the department with quarterly and annual reports. For Fiscal Year 2013-14, the Legislature appropriated a lump sum of $45.5 million to a group of economic development programs that includes the Innovation Incentive Program. DEO did not propose to distribute any of these funds to the program.

The eight projects that received Innovation Incentive Program grant payments during Fiscal Years 2009-10 through 2011-12 have received a total of $368 million; this amount comprises all funds received, including payments made prior to the three-year period. Total contracted funds for the eights projects amount to $449.7 million.[58] Recipients receive incentive payments according to a schedule established in their contract. (See Exhibit 7-1.)

---

[54] The wage requirement states that for agreements signed on or after July 1, 2009, jobs created by the recipient of the incentive funds must pay an annual average wage at least equal to the relevant industry's annual average wage or at least 130% of the average private-sector wage, whichever is greater.

[55] Chapter 2010-147, *Laws of Florida*.

[56] Chapter 2011-142, *Laws of Florida*. The 2009 law required Enterprise Florida, Inc. to "evaluate" proposals, while the 2011 law required the department to "review" proposals.

[57] Chapter 2013-42, *Laws of Florida*.

[58] Participants have tri-party trust agreements with DEO and the State Board of Administration (SBA). Under these agreements, the SBA invests undisbursed funds and makes payments to participants according to a disbursement schedule, upon DEO's approval.

Exhibit 7-1
In Fiscal Years 2009-10 Through 2011-12, the State Paid $368 Million to Eight Biotechnology Research Entities

Incentive Recipient	County	Contract Date	Major Activities	Contracted	Received
Sanford Burnham Institute for Medical	Orange	10/30/2006	Studies the fundamental molecular mechanisms of diseases	$155,272,000	$101,505,000
Torrey Pines Institute for Molecular Studies[1]	St. Lucie	11/16/2006	Conducts basic biomedical research related to disease treatment	24,728,000	19,000,000
SRI International	Pinellas	11/22/2006	Studies surface and subsurface marine environments	20,000,000	19,648,853
Hussman Institute for Human Genomics	Miami-Dade	1/9/2008	Explores genetic influences on human health	80,000,000	59,200,000
Max Planck Florida Corporation	Palm Beach	3/12/2008	Uses bio-imaging to study microscopic molecular processes	94,090,000	94,090,000
Vaccine Gene Therapy Institute	St. Lucie	4/17/2008	Develops vaccines and therapeutics for diseases afflicting the elderly	60,000,000	60,000,000
Charles Stark Draper Laboratory, Inc.	Hillsborough	6/30/2008	Develops miniature medical technologies and military guidance systems	15,000,000	14,000,000
IRX Therapeutics, Inc.	Pinellas	10/28/2011	Develops therapies designed to activate patients' immune systems to fight cancer and related diseases	600,000	600,000
Total				**$449,690,000**	**$368,043,853**

[1] The Torrey Pines Institute for Molecular Studies also received $7,272,000 from the Quick Action Closing Fund.

Source: OPPAGA analysis of Department of Economic Opportunity data.

Program Performance

Contractual Performance Indicators

Innovation Incentive Program recipients are contractually required to create a certain number of jobs that pay an annual average wage of at least 130% of the average private sector wage. At the conclusion of our three-year review period, active program recipients had created 857, or 48.4%, of the 1,771 new jobs they were contracted to create by the end of their contract periods. As noted earlier, DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules. (See Exhibit 7-2.)

Exhibit 7-2
Projects with Innovation Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Created 857Jobs

Project Status	Number of Projects	Contracted New Jobs	Confirmed New Jobs
Completed	0	0	0
Active	8	1,771	857
Inactive	0	0	0
Total	**8**	**1,771**	**857**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Some incentive agreements for this program also require recipients to make a certain level of equipment investment. Exhibit 7-3 shows the companies' cumulative equipment investment was $64.4 million at the end of the three-year review period.

Exhibit 7-3
Projects with Innovation Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Made Over $63 Million in Equipment Investments

Project Status	Number of Projects	Contracted Equipment Investment	Confirmed Equipment Investment
Completed	0	$0	$0
Active	8	105,042,000	64,396,856
Inactive	0	$0	$0
Total	**8**	**$105,042,000**	**$64,396,856**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Other Analyses

In addition to reviewing Innovation Incentive Program recipient's performance, we examined growth in Florida's biotechnology industry and in three sectors within the industry—research and development in biotechnology, pharmaceutical and medicine manufacturing, and medical devices. Our 2013 report analyzed business, employment, and wage data from 2008 through 2011 and made several observations regarding cluster development and biotechnology industry growth.[59]

- The state's biotechnology clusters continue to slowly grow, with the industry's research and development sector demonstrating the most growth.

[59] *Florida's Biotechnology Industry Is Expanding; Cluster Growth Continues to Slowly Progress*, OPPAGA Report No. 13-06, March 2013.

- Overall, the number of biotechnology businesses in Florida increased by 20.1% and average wages increased by 15.5%, but the number of employees decreased by 10%.
- Statewide, only one of the three biotechnology sectors – research and development – experienced growth in all three indicators—businesses (37.7%), employees (44.3%), and average wages (9.2%).
- Innovation Incentive Program recipients contributed to biotechnology research and development employment growth in all six counties where their facilities are located.

Given the state's significant investment in the biotechnology industry, we conducted location quotients and shift-share analyses for industry sectors to gain a better understanding of how they are performing relative to regional, state, and national economic and employment trends.[60] These analyses determined that employment in one sector, research and development in biotechnology, grew significantly between 2008 and 2011 and also outpaced national and industry growth trends.

Location quotients compare Florida's employment in each biotechnology industry sector to national employment in each biotechnology industry sector. Location quotients exceeding 1.0 indicate that Florida's level of employment in an industry exceeds the national level of employment in that industry. A positive change in location quotient from 2008 to 2012 indicates that the industry increased as a portion of Florida's economy relative to the national economy. Our analysis determined that employment in one sector, research and development in biotechnology, grew significantly between 2008 and 2011. (See Exhibit 7-4.)

Exhibit 7-4
Location Quotients for Florida's Biotechnology Industry Show Growth in One Sector

Florida Industry (NAICS)	Location Quotient (2008)	Location Quotient (2011)
Research and Development in Biotechnology (541711)	0.15	0.23
Pharmaceutical and Medicine Manufacturing (325411, 325412, 325413, and 325414)	0.25	0.23
Medical Devices (334510, 334516, 334517, 339112, 339113, and 339115)	0.90	0.81
All Biotechnology (includes 11 NAICS codes)	**0.52**	**0.49**

Source: OPPAGA analysis of Department of Economic Opportunity data.

We also conducted a shift-share analysis of biotechnology industry sectors in Florida. Shift-share represents how much of the employment growth or decline in the state or county industry was due to the national or state economy, the national or state level trend within the particular industry, and the state or county's characteristics. Shift-share is composed of the three components listed below. The change in employment between 2008 and 2011 equals the sum of the three components.

- **National (or State) Growth Share** is the change in employment due to the growth of the overall national or state economy. If the national or state economy is growing, then you expect to see a positive change in each industry in the state or county.
- **Industry Mix Share** is the change in employment due to the growth (or decline) of the overall industry in the nation or state relative to the growth (or decline) of the overall national or state economy.
- **Regional Shift** is the change in employment due to the state or county's characteristics (also referred to as "competitive share"). It is the most important component. A positive regional shift indicates the state or county industry is outperforming the national or state trend. A negative effect indicates that the state or county industry is underperforming compared to the national or state trend.

[60] We calculated location quotients and shift-share analyses using Florida and national employment data.

Our shift share analysis showed that Florida's research and development in biotechnology sector outpaced national and industry employment trends. Conversely, the pharmaceutical and medicine manufacturing and medical devices sectors underperformed national and industry trends. (See Exhibit 7-5.)

Exhibit 7-5
Shift-Share Analysis for Florida's Biotechnology Industry Shows the State's Research and Development Sector Outpacing the Nation

Industry/Sector	Florida Employment Change (2008-2011)	National Growth Share	Industry Mix Share	Florida Shift
Research and Development in Biotechnology	643	-64	46	662
Pharmaceutical and Medicine Manufacturing	-758	-215	-116	-427
Medical Devices	-2,643	-945	801	-2,499
All Biotechnology	-2,757	-1,224	380	-1,913

Source: OPPAGA analysis of Department of Economic Opportunity data.

Chapter 8: Enterprise Zone Program

Background

Program Creation and Development

Purpose. The 1982 Legislature created the Florida Enterprise Zone Program to provide incentives to induce private investments in economically distressed areas of the state.[61] The program targets areas that chronically display extreme and unacceptable levels of unemployment, physical deterioration, and economic disinvestment. The program has several goals including revitalizing and rehabilitating distressed areas, stimulating employment among area residents, and enhancing economic and social well-being in the areas.

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. State incentives include job and corporate income tax credits as well as sales tax refunds.[62] (See Exhibit 8-1.)

Exhibit 8-1
The State Offers Many Incentives Through the Enterprise Zone Program

State Enterprise Zone Incentives
Jobs Tax Credit (Sales and Use Tax) s. 212.096, *F.S.* 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 or residents of a rural county in rural enterprise zones.
Jobs Tax Credit (Corporate Income Tax) s. 220.181, *F.S.* 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 or residents of a rural county in rural enterprise zones.
Property Tax Credit (Corporate Income Tax) s. 220.182, *F.S.* 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 s. 212.08(5)(g), *F.S.* 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 s. 212.08(5)(h), *F.S.* 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 in an Enterprise Zone s. 212.08(15), *F.S.* A 50% sales tax exemption on the purchase of electrical energy is available to businesses located in a zone. 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.

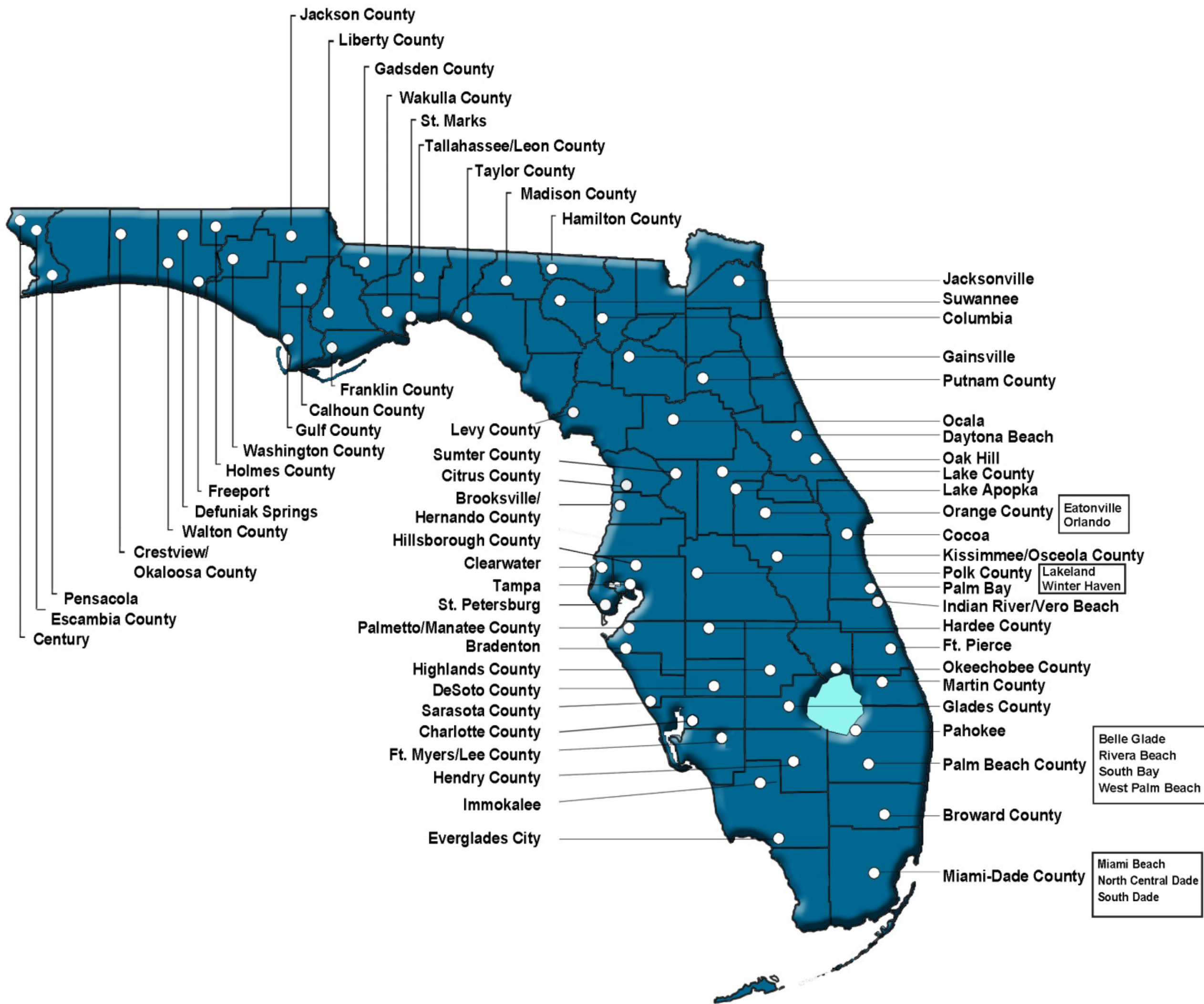
Source: *The Florida Statutes.*

[61] 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.

[62] Local incentives include occupational license fee reduction; municipal utility tax abatement; façade renovation and/or commercial revitalization; loans, grants, and miscellaneous; reduction of local government regulations; impact fee waiver and/or discount; local economic development property tax exemption; additional local government services; and local funds for capital projects.

Counties and municipalities may nominate an area to be designated as an enterprise zone that has high poverty (greater than 20%), high unemployment, and general distress, and meets certain geographic specifications (zones may not exceed 20 square miles).[63] Rural enterprise zones are located in counties with populations that generally do not exceed 100,000.[64] Of the 65 enterprise zones within the state, 29 are rural and 36 are urban. (See Exhibit 8-2.)

Exhibit 8-2
Florida Has 65 Enterprise Zones



Source: The Department of Economic Opportunity.

[63] Sections 290.0058 and 290.0055, *F.S.*

[64] 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.

Local governments are responsible for zone administration and monitoring activities, creating enterprise zone development agencies and employing zone coordinators. Zone coordinators serve as local contacts and assist 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 the DEO for inclusion in the enterprise zone annual report. The Department of Economic Opportunity oversees the program at the state level and approves zone designation applications and changes in zone boundaries. The department also provides technical support to local zone coordinators and submits annual program reports to the Governor and Legislature.

History. The Legislature has enacted several changes to the Enterprise Zone Program since its inception. For example, the 1994 Legislature passed the Florida Enterprise Zone Act of 1994, which repealed the existing enterprise zones on December 31, 1994, created parameters for designation of new zones, and established a program expiration date of June 30, 2005.[65] In addition, the jobs tax credit criteria were revised to require both businesses and employees to reside within an enterprise zone. In 1995, 19 new rural and urban enterprise zones were designated.

The 2005 Legislature extended the program for 10 years and gave existing enterprise zones an opportunity to have their zones be re-designated.[66] By January 1, 2006, the former Office of Tourism, Trade and Economic Development (OTTED) had approved 53 re-designation application packages.[67] Subsequently, the Legislature authorized and OTTED approved the designation of enterprise zones in nine additional jurisdictions.

In 2010, the Legislature amended the definition of real property by excluding condominiums from the building materials sales tax refund incentive.[68] In October 2011, management of the Enterprise Zone Program was transferred from OTTED to DEO's Division of Community Development, Bureau of Economic Development. DEO approved three additional enterprise zone application packages in 2012, bringing the total number of zones to 65.

Incentives Received

Local zone coordinators must certify all applications for enterprise zone credits and tax refunds.[69] Applicants must attach required documents to required Department of Revenue forms, including receipts if the business is applying for sales tax refunds and employee information if applying for jobs tax credits. The Department of Revenue audits these applications to ensure they meet several criteria, including evidence that applicants owned the property when the improvements were made; employees are full-time and live in the zone; applicants have paid pertinent taxes; and application deadlines were met.[70] If DOR denies an application, the applicant is notified and may amend their application, file an informal protest with the department, or file a written, formal protest with the Division of Administrative Hearings or a circuit court.

---

[65] Chapter 94-136, *Laws of Florida*.

[66] Chapter 2005-287, *Laws of Florida*.

[67] OTTED was a predecessor of the Department of Economic Opportunity. When DEO was created in 2011, OTTED's functions were transferred to the department.

[68] Chapter 2010-147, *Laws of Florida*.

[69] Businesses applying for community contribution tax credits must seek approval from the Department of Economic Opportunity.

[70] A 2011 OPPAGA report (*Few Businesses Take Advantage of Enterprise Zone Benefits; the Legislature Could Consider Several Options to Modify the Program*, OPPAGA Report No. 11-01, January 2011) described several deficiencies in the incentive application process including no written procedures for review and approval of tax credits; differing procedures for refunds, credits, sales and use taxes, and corporate income taxes; inability to submit tax credit applications online; and an inconsistent approval process.

In Fiscal Years 2009-10 through 2011-12, businesses received $110.9 million in Enterprise Zone Program incentives. During the period, there was a significant decrease (74.5%) in incentives, primarily due to the 2010 Legislature's exclusion of condominiums from the definition of real property, which in turn made condominiums ineligible for sales tax refunds for building materials.[71] The largest decrease in incentives occurred between Fiscal Years 2009-10 and 2011-12, with a 56.3% decline. (See Exhibit 8-3.)

Exhibit 8-3
Enterprise Zone Program Incentives Decreased 74.5% Between Fiscal Years 2009-10 and 2011-12

	State Incentive Amounts				
Incentives	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Total	Percentage Change FY 2009-10 to 2011-12
Sales Tax Refund for Building Materials Used	$53,030,595	$13,590,376	$2,462,136	$69,083,107	-95.4%
Jobs Tax Credit (Sales and Use Tax)	4,568,257	5,979,438	7,625,993	18,173,688	66.9%
Jobs Tax Credit (Corporate Income Tax)	3,892,991	5,547,786	3,484,013	12,924,790	-10.5%
Sales Tax Refund for Business Machinery and Equipment	1,035,561	679,440	1,228,480	2,943,481	18.6%
Property Tax Credit (Corporate Income Tax)	1,896,648	1,906,552	992,280	4,795,480	-47.7%
Sales Tax Exemption on Electricity Use	1,138,054	972,185	900,476	3,010,715	-20.9%
Total	**$65,562,107**	**$28,675,777**	**$16,693,378**	**$110,931,261**	**-74.5%**

Source: OPPAGA analysis of Department of Revenue data.

[71] Chapter 2010-147, *Laws of Florida*.

Program Performance

To more closely examine Enterprise Zone Program performance, OPPAGA sought to gauge changes in economic outcomes and participation by businesses in five selected enterprise zones.[72] We considered a range of factors when selecting our sample, including incentive amount, population, and urban/rural geography. The five zones are Gulf County, Jacksonville, Miami-Dade County, Okeechobee County, and Tallahassee/Leon County.

In Fiscal Years 2009-10 through 2011-12, the five zones received sales and use tax credits and refunds totaling $73.8 million; this represents 66.5% of the incentives received statewide during the period. Miami-Dade County received the most incentives, $68.2 million, while Gulf County received the least, $477,633. The most frequently used incentive among the five counties was the sales tax refund for building materials, which totaled $61.6 million. (See Exhibit 8-4.)

Exhibit 8-4
Businesses in Five Enterprise Zones Received $73.8 Million in Incentives in Fiscal Years 2009-10 Through 2011-12[1]

Enterprise Zone	Jobs Tax Credits		Refunds for Building Materials Used		Refunds for Business Machinery Used		Total
	Businesses	Incentive	Businesses/ Individuals	Incentive	Businesses	Incentive	Incentive
Miami-Dade County	102	$7,378,945	64	$59,490,547	81	$1,302,308	**$68,171,800**
Jacksonville	20	775,369	33	478,085	28	650,941	**1,904,395**
Okeechobee County	19	1,584,204	8	34,083	6	34,241	**1,652,528**
Tallahassee/Leon County	5	17,447	52	1,518,649	11	56,984	**1,593,080**
Gulf County	17	421,779	19	51,426	5	4,428	**477,633**
Total	**163**	**$10,177,744**	**176**	**$61,572,790**	**131**	**$2,048,902**	**$73,799,436**

[1] The figures presented do not include credits taken against Florida corporate income taxes because the Department of Revenue does not track these incentives for individual enterprise zones.

Source: OPPAGA analysis of Department of Revenue data.

The only Enterprise Zone Program incentive that is directly linked to employment is the Job Tax Credit. The incentive is available to businesses located in a zone that pay Florida sales and use or corporate income taxes; businesses are granted tax credits for new employees who have been employed for at least three months and are zone residents or residents of a rural county in rural enterprise zones. In Fiscal Years 2009-10 through 2011-12, 163 businesses in the five selected zones received job tax credits totaling $10.2 million. These businesses hired 2,517 new employees. Miami-Dade County claimed the most credits, totaling $7.4 million for 1,837 jobs. (See Exhibit 8-5.)

[72] We reviewed the same five zones in 2011. See *Few Businesses Take Advantage of Enterprise Zone Benefits; the Legislature Could Consider Several Options to Modify the Program*, OPPAGA Report No. 11-01, January 2011.

Exhibit 8-5
Businesses in Five Enterprise Zones Received $10.2 Million in Job Tax Credits for 2,517 Employees in Fiscal Years 2009-10 Through 2011-12

Enterprise Zone	Businesses	Credits	Employees[1]
Miami-Dade County	102	$7,378,945	1,837
Okeechobee County	19	1,584,204	242
Jacksonville	20	775,369	302
Gulf County	17	421,779	123
Tallahassee/Leon County	5	17,447	13
Total	**163**	**$10,177,744**	**2,517**

[1] This counts all new employees who were eligible for the credit for at least one month between Fiscal Years 2009-10 and 2011-12. Employees are eligible to be claimed for the credit for the first two years after they are hired. If employment is terminated before eligibility expires, the employee cannot be claimed for the remainder of the two years. The Department of Revenue determines when eligibility expires, but does not receive data indicating whether employment was terminated before expiration. Thus, this count may include some newly hired individuals whose employment was terminated prior to Fiscal Year 2009-10 and who were not claimed for the credit between Fiscal Years 2009-10 and 2001-12.

Source: OPPAGA analysis of Department of Revenue data.

From 2005 through 2012, business, employment, and wage growth varied widely among the five zones. The number of businesses and employment declined for all zones, but the size of the decrease varied by county. For example, the number of businesses in Miami-Dade County decreased by 1.1%, while they decreased by 26.6% in Gulf County. Similarly, decreases in employment ranged from a 9.4% decline in Okeechobee County to a 35.7% drop in Gulf County. However, wages increased in all zones, with growth ranging from 3.6% in Gulf County to 18.8% in Miami-Dade County. (See Exhibit 8-6.)

Exhibit 8-6
Economic Outcomes Varied in Five Enterprise Zones in Calendar Years 2005 Through 2012

Enterprise Zone	Business Growth[1]	Employment Growth[2]	Wage Growth[3]
Gulf County	-26.6%	-35.7%	3.6%
Jacksonville	-15.5%	-19.0%	13.3%
Miami-Dade County	-1.1%	-12.7%	18.8%
Okeechobee County	-11.5%	-9.4%	17.9%
Tallahassee/Leon County	-13.4%	-13.2%	13.2%
Statewide	**8.2%**	**-5.2%**	**17.4%**

[1] Changes in number of businesses.

[2] Changes in number of employees.

[3] Changes in average wages.

Source: OPPAGA analysis of Department of Economic Opportunity data.

Other Performance Indicators

As previously noted, the purpose of Florida's Enterprise Zone Program is to establish a process that identifies severely distressed areas and to provide state and local economic incentives to both businesses and homeowners, with the goal of inducing private investment and enabling revitalization. As part of our analysis of the degree to which such improvements have occurred, we reviewed U.S. Census data from 2000 and 2010 for the five selected enterprise zones. We compared changes in median home values, median household income, unemployment rates, and poverty rates in the five selected enterprise zones to similar non-enterprise zone census tracts.

Our analysis found low to mixed results, with enterprise zones meeting some legislative goals but falling short for others. In one of our analyses, two out of five enterprise zones outperformed similar non-zone comparison areas. In our other three analyses, only one of five enterprise zones outperformed similar comparison areas. These results indicate that while there were some successes, in general, the Enterprise Zone Program has not met legislative goals.

One measure of enterprise zone effectiveness at economically revitalizing disadvantaged areas is increased residential property values. In 2000, the five zones we examined all had high percentages of residential properties valued at under $100,000, the lowest census category of property values. The lowest percentage among the five zones was Miami-Dade, where 62% of the personal residences were valued at $100,000 or less; the highest percentage was Jacksonville, where 92% of the personal residences had property values under $100,000. By 2010, all five zones saw a significant decrease in the percentage of residential property valued at less than $100,000, a sign that property values increased in the zones even for the lowest valued residential properties. However, statewide the percentage of residential properties valued at under $100,000 also decreased from 55% in 2000 to 22% in 2010, so it is possible that the zones simply benefitted from the 10-year statewide rise in property values. (See Exhibit 8-7.)

In order to evaluate the growth in enterprise zone property values against a comparison group, for each zone we selected a group of census tracts from the 2000 census that had the same rural/urban status as the enterprise zones and that had the same percentage of homes valued at less than $100,000 in 2000. This allowed us to determine, for each zone, if the change in personal residences valued at under $100,000 or less was different than the change for a comparison group. In 2010, two of the five enterprise zones (Miami-Dade County and Okeechobee County) had smaller percentages than their comparison groups of personal residences valued at $100,000 or less. This shows that there was not an across-the-board increase in property values in enterprise zones that was greater than the increases that occurred in the comparison groups. We did not find strong evidence that residential property values increased more in enterprise zones than in similar non-enterprise zone areas.

Exhibit 8-7
Home Values in Enterprise Zones and Non-Enterprise Zones Have Risen Since 2000

	2000 Percentage of All Homes Valued at Less Than $100,000[1]	2010 Enterprise Zone Percentage of All Homes Valued at Less Than $100,000	2010 Enterprise Zone Comparison Group Percentage of All Homes Valued at Less Than $100,000	Difference Between Enterprise Zone and Comparison Group
Gulf County	73%	37%	37%	0%
Jacksonville	92%	60%	44%	16%
Miami-Dade County	62%	15%	22%	-7%
Okeechobee County	79%	36%	38%	-2%
Tallahassee/Leon County	84%	40%	31%	9%

[1] Enterprise zones and comparison group started at the same percentage.

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

Another measure of enterprise zone economic impact is median household income, which is a measure of a household's ability to acquire the goods and services that satisfy their needs. Our comparison of 2000 and 2010 U.S. Census data for the five selected zones and similar non-enterprise zone areas shows that in all selected enterprise zones, median household incomes have increased. However, only one enterprise zone, Miami-Dade County, showed an increase that exceeded that of its comparison non-enterprise zone area. (See Exhibit 8-8.)

Exhibit 8-8
Median Household Incomes Have Increased in All Five Enterprise Zones Since 2000

	Percentage Change from 2000 to 2010	
	Enterprise Zone	Non-Enterprise Zone
Gulf County	32%	38%
Jacksonville	29%	32%
Miami-Dade County	43%	23%
Okeechobee County	31%	34%
Tallahassee/Leon County	21%	31%

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

Unemployment also is often used as a measure of the health of the economy. Consistent with statewide unemployment trends, for all but one of the five enterprise zones in our review, unemployment rates were higher in 2010 than in 2000; Miami-Dade County's unemployment rate remained at 12%. When comparing enterprise zones to non-enterprise zone areas, Gulf County was the only zone that had a lower unemployment rate than its comparison non-zone area (10% compared to 13%). (See Exhibit 8-9.)

Exhibit 8-9
Consistent with State and National Trends, Unemployment Rates Increased in Most of the Selected Enterprise Zones in 2000 Through 2010

	2000 Unemployment Rates for Enterprise Zones and Non-Enterprise Zones[1]	2010 Enterprise Zone Unemployment Rates	2010 Non-Enterprise Zone Unemployment Rates
Gulf County	6%	10%	13%
Jacksonville	10%	18%	13%
Miami-Dade County	12%	12%	12%
Okeechobee County	5%	12%	12%
Tallahassee-Leon County	15%	15%	11%

[1] Both areas started at same rate.

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

Finally, the U.S. Census Bureau uses a set of income thresholds that vary by family size and composition to define poverty. If a family's total income is less than the family's threshold, the family is considered in poverty. Over the 10-year period of our review, poverty rates increased for three of the five selected enterprise zones. In all but one of the five zones, the poverty rate exceeded that of similar non-enterprise zone areas; Miami-Dade County's 2010 rate (26%), while increasing over the 10-year period, was lower than the comparison area (29%). (See Exhibit 8-10.)

Exhibit 8-10
In Fiscal Years 2000 Through 2010, Poverty Rates within Most of the Five Selected Enterprise Zones Increased

	2000 Poverty Rates for Enterprise Zones and Non-Enterprise Zones[1]	2010 Enterprise Zone Poverty Rates	2010 Non-Enterprise Zone Poverty Rates
Gulf County	17%	17%	16%
Jacksonville	30%	33%	29%
Miami-Dade County	27%	26%	29%
Okeechobee County	16%	24%	17%
Tallahassee-Leon County	37%	43%	31%

[1] Both areas started at same rate.

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

eflorida.com

Enterprise Florida
diversifying florida's economy

December 20, 2013

Mr. R. Philip Twogood
The Florida Legislature's Office of Program
Policy Analysis and Government Accountability
111 West Madison Street, Suite 312
Tallahassee, Florida 32399-1475

Dear Mr. Twogood:

Thank you for the opportunity to read and respond to the Office of Program Policy Analysis and Government Accountability's report regarding Florida's economic development incentive toolkit. We appreciate the detailed overview and analysis of each incentive program.

Recruiting competitive projects to create jobs for Floridians and capital investment in our communities is critical to bolstering our economy. As you know, our economic development efforts must be done with strictest level of fiduciary responsibility and demonstrate a notable return on investment to the taxpayers. It is because of our commitment to the taxpayers that Enterprise Florida, Inc. (EFI), along with its partner at the Department of Economic Opportunity (DEO), conducts a thorough evaluation of every project for the use and benefit of incentives.

As the survey results noted, Florida is competing not only with other states but countries and incentives become very important, when site characteristics are equal or when Florida cannot match the resources available in other states. This reaffirms my belief that incentives cannot make a bad deal good, but can make a good deal better. Building on that belief, EFI always considers the scope of the proposed project along with an understanding of the company's plans, goals and the competitive nature of the project help to shape Florida's incentive package.

The individual review of each of Florida's legislatively outlined economic development incentive programs demonstrates the success of the state's most commonly used program – the Qualified Targeted Industry Tax Refund Program. More than 75 percent of awarded incentives fall within this program. By providing a refund to taxes paid into the state by a company, companies in return create high-paying, high skilled jobs. The state's "cost" for this program is approximately $1,500 per job created, a clear win for the 37,000 new jobs created under the program – and more jobs than the companies were contracted to create. It is important to note that the many of the projects in the QTI program are still active and on target to meet contractual goals.

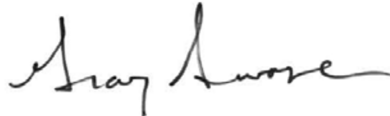
Governor Rick Scott, Chairman • Brett Couch, Vice Chairman • Gray Swoope, President & CEO

The Atrium Building, Suite 201 • 325 John Knox Road • Tallahassee, Florida 32303 • T 850.298.6620 • F 850.298.6659

What cannot be overstated is that, as a result of these projects, Florida's communities are not only benefiting from increased new jobs and capital investment, but also strong state and local revenue streams for schools, parks and community amenities, as well as numerous indirect jobs.

EFI remains steadfast in its commitment to Florida's taxpayers. We look forward to continuing to work you and our partners at DEO and members of the Legislature to strengthen Florida's incentive programs and continue creating jobs for Florida's families.

Sincerely,



Gray Swoope
Secretary of Commerce
President & CEO, Enterprise Florida Inc.

cc: Ms. Melinda Miguel, Chief Inspector General, Executive Office of the Governor

Rick Scott
GOVERNOR

Jesse Panuccio
EXECUTIVE DIRECTOR

December 31, 2013

Mr. R. Philip Twogood
The Florida Legislature's Office of Program
Policy Analysis and Government Accountability
111 West Madison Street, Suite 312
Tallahassee, Florida 32399-1475

Dear Mr. Twogood:

Pursuant to section 11.51(2), Florida Statutes, this letter represents Florida Department of Economic Opportunity's (DEO) response to the report titled: *Florida Economic Development Program Evaluations – Year 1*. We thank you and your staff for the review of the state's key economic development incentive programs and appreciate the detailed analysis of each program. DEO seeks to continually improve the efficiency and effectiveness of its functions and welcomes the opportunity to assess observations and recommendations for consistent and enhanced compliance implementation.

The review included projects that had received an incentive payment or claimed a tax credit during the fiscal years 2009-10 through 2011-12, which primarily corresponds to calendar year performance periods 2008-2010. This time period spans two gubernatorial administrations with differing policies, leadership, and priorities. The review is a look back at activities that occurred through several transitions in the administration of the programs including: transition from the Office of Tourism, Trade and Economic Development (OTTED) to DEO; transition from a third-party contract compliance monitoring firm to an in-house compliance unit; improvement in the alignment of the state's economic development public-private partners; and enhancements in policies and procedures for conducting due diligence and compliance functions. These transitions began in 2011 and largely occurred after the period under review – over 90 percent of the incentives were approved prior to 2011.

<u>Recommended Improvements Have Largely Been Made</u>
It is important to note that the report covers a time period in which incentives were evaluated, approved, and contracted very differently than today. Today, we have made significant changes to the incentives application and approval process and the due diligence procedures discussed in the report under the heading "Incentive Program Administration" are largely new. With significant improvements made to our incentive applications, due-diligence process, deal structures and contracts, our procedures and documents provide an enhanced level of protection for the taxpayers' investment.

Before making an investment through incentives, DEO performs due diligence on each company, considers the scope of the proposed project, evaluates what incentives are suitable, and negotiates the terms of an incentive agreement. The process begins with a thorough investigation of the company. This "due diligence" process serves to determine whether incentives are appropriate for the company and the project, identify any problems, and assist with structuring the deal.

DEO's new due diligence process has two levels—we conduct Level One due diligence for tax refund and credit incentive programs (*e.g.*, the Qualified Target Industry Tax Refund Program and the Capital

Florida Department of Economic Opportunity | Caldwell Building | 107 E. Madison Street | Tallahassee, FL 32399
866.FLA.2345 | 850.245.7105 | 850.921.3223 Fax
www.floridajobs.org | www.twitter.com/FLDEO | www.facebook.com/FLDEO

Investment Tax Credit Incentive Program) and we conduct both Level One and Level Two due diligence for discretionary cash incentive programs (*e.g.*, the Quick Acton Closing Fund Program and the High-Impact Performance Incentive Program). Tax refund and credit incentives do not involve credit risk because payments are made only after demonstrated performance. Accordingly, we focus our due diligence on statutory compliance, reputation risk (*e.g.*, known felony criminal histories of principal executives, civil fines and penalties, significant litigation, etc.) and whether there is a substantial probability of non-performance (*e.g.*, imminent insolvency). We consult a variety of resources, including conducting litigation searches on Lexis Nexis and Justia, searching federal and state databases, and reviewing regulatory filings and filings with the Securities and Exchange Commission (for public companies). For incentives in which a company receives all payments prior to fulfilling all of its performance obligations, the State may be required to exercise contractual remedies, including claw backs. Because the effectiveness of a claw back remedy depends on the financial ability of a company to return funds to the State, in addition to the Level One due diligence, our financial analysts review the company's financial statements and review credit rating reports (*i.e.*, Standard & Poor's, Moody's and Fitch) or, when a company does not have rated debt, we conduct an independent analysis of its credit.

Our improved processes and procedures allow us to fulfill our fiduciary duty to protect the taxpayers' investment, while helping to foster an environment that encourages private-sector job creation. In the next year, we will continue to build on our improvements. Additionally, we have had the opportunity to implement an enhanced data system over the past year to assist in electronic filing and retrieval of project files. We look forward to maximizing our ability to document and maintain project files.

<u>DEO Requires Appropriate Supporting Documentation for All Incentive Projects</u>
With respect to your findings related to improving the consistency of documentation, certain programs and agreements require different types of documentation. Accordingly, while we agree that the type of documents evidencing performance requirements varies, such variation is necessary. The report points to files containing business generated lists of employees and wages or unemployment compensation forms. Such differences are necessary to adequately determine performance for different business structures and statutory requirements. A change in the QTI statute in 2009 required the state to measure the average wage of only new employees hired after the incentive was approved. The RT-6 form (which is specifically referenced) used for reemployments purposes does not distinguish the "new" employees from those who were previously hired; therefore, DEO requires businesses to submit a complete listing of employees, including hire and termination dates, and actual wages paid by pay period.

While the statute is silent on the extent of documentation and testing required to support the validity of an incentive performance claim, DEO obtains information directly from businesses and other state departments to document performance for every claim and every incentive payment. For job and wage claims, we review:

- Businesses' jobs and wages claim spreadsheets.
- Department of Revenue's (DOR) SunTax system to confirm awardee business' direct and leased/temporary employment and annual average wages paid.
- W-2 and W-1099 forms, as necessary, to determine the nature of employment relationships and to confirm annual average wages.

For capital investment, we review invoices and cancelled checks, ACH slips, bank statements, etc., to confirm capital investment made, as applicable. For taxes paid, we review:

- Corporate Income Tax data from DOR for applicable awardee businesses.
- Invoices and canceled checks, ACH slips, bank statements, etc., to confirm taxes paid, as applicable.
- County tax collector websites to confirm proof and amount of payment of real and tangible personal property taxes.

DEO Confirms Brownfield Locations

DEO confirms the project location prior to making any brownfield tax refund payments. When asked to provide evidence of brownfield locations, DEO staff sent OPPAGA the brownfield location maps from DEP's website for each of the requested projects. These are the projects for which OPPAGA also confirmed the eligible project locations for each project.

DEO Will Monitor and Evaluate New Third-Party Contractor

We appreciate the recommendation to establish monitoring and evaluation procedures for overseeing the work of the new third-party vendor. As is recognized in the report, OTTED/DEO did not conduct a formal evaluation of its former contractor's performance. With the most recent Comprehensive Performance Audit, 14-RFP-002-LJ (REISSUE), DEO established more thorough deliverables, measures, and financial consequences to develop DEO's ability to track and oversee the contractor's performance. DEO will hold the contractor accountable for their performance, while maintaining their independence. These deliverables, measures, and financial consequences include weekly and monthly meetings to track the contractor's activity and progress and to discuss any challenges throughout the course of the contract. If for any reason the contractor fails to perform any of the deliverables or meet any of the measures, financial consequences will be applied by DEO. Additionally, of note, DEO will work in coordination with the new contractor to review and implement enhanced policies and procedures for contract monitoring and compliance review.

Concerns Regarding OPPAGA'S Survey Instrument

While gathering data by surveying recipients of incentives may be useful, the survey that OPPAGA conducted for purposes of the report has potentially material and important defects, including question error, coverage error, and non-response error. As a result, the survey may not have produced reliable results.

For example, we have concerns with certain survey questions. Because the various incentive programs that OPPAGA evaluated are intended to induce different outcomes, it is imperative that questions designed to measure the efficacy of each of the programs are tailored to the objectives established by the Legislature in the applicable statutes. In particular, while the Quick Action Closing Fund Program and the High-Impact Performance Incentive Program are designed to induce businesses to choose Florida for a project rather than competitor states, the Brownfield Redevelopment Bonus Refund Program and the Enterprise Zone Program are designed to induce businesses to locate a project on a brownfield site or in an enterprise zone, respectively, rather than another location that may or may not be in Florida. Moreover, while the Qualified Target Industry Tax Refund Program is in practice held to a competitive project standard, it is by statute a job-creation incentive program designed to induce both Florida and out-of-state businesses. However, OPPAGA's survey treats all of the incentive programs as if the statutorily-defined objectives are identical, asking "If the state economic development incentive(s) had not been awarded to your company, what would have been the effect on your company's plans to conduct the project in Florida?" Respondents could choose from one of the following responses: (i) proceed as planned in Florida, (ii) proceed on a smaller scale in Florida, (iii) proceed at an out of state location or (iv) canceled project. While this question is clearly relevant for recipients of incentives from the Quick Action Closing Fund Program and the High-Impact Performance Incentive Program, the

question is not adequately tailored to the objectives of 220 (81%) of the 271 incentives awarded during the evaluation period. It is important to note that some of the projects received multiple incentives; therefore, the number of incentives awarded is greater than the number of projects.

In addition, the survey respondents may not have had the necessary knowledge to answer the survey questions. Few decisions are more sensitive to businesses than where the business will relocate or expand. For example, if employees of a New York-based business that is considering moving its operations to Florida know that their jobs are at risk even before the company has made a decision, it could result in premature defections of key personnel which could put the business at risk. In any business with more than a handful of employees, the pool of people who are privy to a company's expansion or relocation decision-making process is limited to key executives. Once a company receives incentives, compliance is generally tasked to low-level functionaries. In addition, because 248 (92%) of the incentives awarded during the evaluation period were approved prior to 2011—some as early as 2000, in many cases, the persons with knowledge of a company's decision making process may no longer be with the company and/or may not accurately recollect the company's decision making process in connection with an historical decision. Although OPPAGA stated in its survey that the "company's survey respondent should be knowledgeable about incentives your company applied for or received payment for as well as the importance of the incentives to company decision making," the survey respondents (which in many cases were lower-level employees) did not necessarily know what portions of the decision-making process to which they were not privy and could not adequately assess their ability to respond to the survey. Accordingly, the survey should at least have been limited to key executives at the time of the relocation or expansion decision who by virtue of their position would have sufficient knowledge to answer the applicable questions.

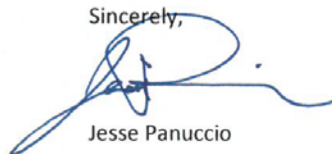
Non-response is a problem for survey quality because it almost always introduces systematic bias into the data. This results in poorer data quality and can significantly bias any estimates derived from the data. OPPAGA surveyed 144 of the businesses that received incentives during the evaluation period and just 54 (38%) of these businesses provided complete responses. While nearly every survey suffers from some rate of non-response, the degree of non-response to OPPAGA's may make the results potentially unreliable.

Only Two High Impact Performance Incentives were Reviewed

While there were many businesses that participated in the economic-development programs for this period, achieved performance, and received incentive payments, there were only two High Impact Performance Incentives (HIPI) projects represented in the review pool. This means that the program data from which to draw conclusions is limited for the HIPI program.

Again, we thank you and your staff for the review and will take under advisement the actions recommended to promote more efficiency, transparency, and accountability in the state's economic-development incentive programs.

Sincerely,



Jesse Panuccio

JP/cp

CourtSmart Tag Report

Room: EL 110 **Case:** **Type:**
Caption: Senate Commerce Committee **Judge:**

Started: 1/13/2014 4:02:50 PM
Ends: 1/13/2014 5:33:26 PM Length: 01:30:37

4:03:52 PM Intro by Chair
4:04:11 PM Tab 1 - Office of Economic and Demographic Research - Amy Baker
5:09:58 PM Tab 2 - Office of Program Policy Analysis and Government Accountability - Larry Novey
5:32:25 PM Senator Ring moves we rise