

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Committee on Commerce and Tourism

BILL: SB 1012

INTRODUCER: Senator Hays

SUBJECT: Economic Gardening

DATE: March 29, 2013 REVISED: _____

| | ANALYST | STAFF DIRECTOR | REFERENCE | ACTION |
|----|---------|----------------|-----------|------------------|
| 1. | Malcolm | Hrdlicka | CM | Favorable |
| 2. | _____ | _____ | ATD | _____ |
| 3. | _____ | _____ | AP | _____ |
| 4. | _____ | _____ | _____ | _____ |
| 5. | _____ | _____ | _____ | _____ |
| 6. | _____ | _____ | _____ | _____ |

I. Summary:

SB 1012 makes the Economic Gardening Technical Assistance Pilot Program permanent. It directs the Department of Economic Opportunity to contract with the University of Central Florida's Economic Gardening Institute to implement the program. The bill expands eligibility for the program to larger small businesses by modifying the eligibility requirements:

- The business must have employed at least 10 persons but no more than 99 persons at the end of the preceding fiscal year. The bill removes the requirement for the business to have maintained its principal place of business in state for at least the previous 2 years.
- The business must have generated at least \$1 million but not more than \$50 million in annual revenue during the preceding fiscal year. The bill removes the requirement that the business qualifies for the qualified target industry business program under s. 288.106, F.S.
- During 2 of the previous 6 years the business must have increased *either* its number of full-time equivalent employees in Florida *or* its gross revenue.
- The business generates a minimum of 51 percent of its revenue outside Florida, is located in a rural community as defined in s. 288.0656, F.S., or is classified within a qualifying NAICS code.

The bill appropriates \$2 million in recurring funds from the General Revenue Fund to the University of Central Florida to fund the Economic Gardening Technical Assistance Program for FY 2013-2014.

This bill substantially amends ss. 288.1081 and 288.1082, F.S.

II. Present Situation:

Economic Gardening

“Economic gardening” is a long-term, economic development strategy designed to grow jobs by encouraging entrepreneurial activity in a community, region, or state. In contrast to traditional “economic hunting” strategies aimed at recruiting businesses from outside the community, economic gardening focuses on the job creation potential of small local businesses that already exist in the community.

The concept of economic gardening was pioneered in 1987 by the City of Littleton, Colorado, during a statewide recession.¹ It is based on research by M.I.T. and the Federal Reserve Bank of Kansas City economists, which shows that the vast majority of new jobs in a local economy are produced by the community’s small local businesses, specifically a small group of high-growth businesses called “gazelles.”² These second-stage companies have grown past the start-up phase, but have not reached maturity.³ They usually generate between \$1 million and \$50 million in annual revenue and employ between 10 and 100 employees depending on the industry. Second-stage companies are significant job creators and often have global or national markets, meaning these businesses bring outside dollars into the community. At this stage of the business cycle, businesses are focused on developing new markets, refining business models, and accessing competitive intelligence.⁴

Economic gardening focuses on three main elements:⁵

- *Information:* The survival and growth of small businesses depends on access to critical information. Access to free or affordable information and consulting services is thus extremely valuable. Programs can provide access to information on markets, customers, and competitors, such as business databases, GIS (geographic information system), and search engine marketing.
- *Infrastructure:* This element focuses on building and supporting the development of community assets essential to commerce and overall quality of life. In addition to basic physical infrastructure, this element includes quality of life infrastructure (e.g., parks, open spaces, and historical preservation) and intellectual infrastructure that provide educational opportunities to help keep companies competitive.
- *Connections:* Entrepreneurs benefit significantly from interaction and exchange among business owners and resource providers, such as trade associations, think tanks, and academic institutions. Examples of strategies that improve connectivity include business

¹ See Steve Quello and Graham Toft, *Economic Gardening: Next Generation Applications for a Balanced Portfolio Approach to Economic Growth* (Dec. 2006), available at http://www.sba.gov/advo/research/sbe_06_ch06.pdf (last visited March 27, 2013).

² Kelly Edmiston, Federal Reserve Bank of Atlanta, *Economic Gardening Helps Communities Grow Their Own Jobs*, Vol. 18, No. 1, 2008, at 2, available at http://www.frbatlanta.org/pubs/partners/partners-no_1_2008-economic_gardening_helps_communities_grow_their_own_jobs.cfm (last visited March 27, 2013).

³ Edward Lowe Foundation, *Economic Gardening – An entrepreneur-oriented approach to economic prosperity* (2012), available at <http://edwardlowe.org/edlowenetwp/wp-content/themes/implementprogram/downloads/infosheets/EconomicGardening.pdf> (last visited March 27, 2013).

⁴ See *supra* note 3.

⁵ See Christian Gibbons, The IEDC Economic Development Journal, *Economic Gardening*, Vol. 9, No. 3, Summer 2010 (on file with the Senate Committee on Commerce and Tourism).

roundtables, peer-to-peer learning sessions, and mentoring programs that partner new business owners with accomplished businesses in their industry.

Florida's Economic Gardening Initiatives

In 2009, the Legislature created a two-pronged economic gardening initiative.⁶ The first component is the Economic Gardening Business Loan Pilot Program⁷ which provides low-interest short-term loans to eligible businesses to assist them with their infrastructure, networking, and mentoring needs. The second component of the economic gardening initiative is the Economic Gardening Technical Assistance Pilot Program,⁸ the purpose of which is to stimulate investment in the state's economy by providing technical assistance for eligible businesses.

The eligibility requirements for a business seeking technical assistance are the same as those under the Economic Gardening Business Loan Pilot Program:⁹

- It must be a for-profit, privately held, investment-grade business that employs between 10 and 50 persons.
- The business has been in existence in Florida for a period of at least 2 years.
- The business generates between \$1 million and \$25 million in annual revenue.
- The business is eligible for the Qualified Targeted Industry (QTI) tax refund program pursuant to s. 288.106, F.S.¹⁰
- During 3 of the last 5 years, the company has experienced steady growth in its gross revenues and employment.

The Department of Economic Opportunity (DEO) was directed to select by competitive bid, a third-party contractor to implement the technical assistance pilot program.¹¹ Selection criteria for the contractor included the ability to implement the program on a statewide basis; the capability to provide counseling services, access to technology and information, marketing services and advice, business management support, and similar services; and whether the contractor qualifies for matching funds to provide the technical assistance.¹² The law also authorized the third-party contractor to promote the general business or industrial interests of the state.¹³

Twice a year, DEO must review the third-party contractor's progress and determine if it is meeting its contractual requirements. If not, DEO may terminate the contract and re-bid.¹⁴

The technical assistance provided by the pilot program, includes, but is not limited to:

⁶ Chapter 2009-13, L.O.F., *codified at* ss. 288.1081 and 288.1082, F.S.

⁷ Section 288.1081, F.S.

⁸ Section 288.1082, F.S.

⁹ *See* ss. 288.1081(3)(a), F.S., and 288.1082(4)(a), F.S.

¹⁰ A key requirement of the QTI program is that businesses must pay an annual average wage of at least 115 percent of the average private sector wage in the area where the business is located or the statewide private sector average wage. *See* s. 288.106(4)(b), F.S.

¹¹ Section 288.1082(2), F.S.

¹² Section 288.1082(2), F.S.

¹³ Section 288.1082(6), F.S.

¹⁴ Section 288.1082(7), F.S.

- Access to free or affordable information and consulting services, including information on markets, customers, and competitors, such as databases, geographic information systems, and search engine marketing.
- Development of business connections, including interaction and exchange between business owners and resource providers, which may include trade associations, academic institutions, business roundtables, peer-to-peer learning sessions, and mentoring programs.¹⁵

The third-party contractor is directed to select eligible businesses in more than one industry cluster and, where possible, in different regions of the state.¹⁶ Any business receiving the technical assistance must sign an agreement with the third-party contractor committing to the following minimum conditions, on a basis determined by the contractor:

- Attending a minimum number of meetings with the third-party contractor.
- Reporting job-creation data.
- Providing financial data.¹⁷

Lastly, by December 31 of each year, DEO is required to submit an annual report detailing the progress of the technical assistance pilot program. This annual report must, at a minimum, include the number of businesses receiving assistance, the type and location of businesses assisted, and the number and wages of jobs created as a result of the business assistance provided, if any.¹⁸

University of Central Florida – Economic Gardening Institute (GrowFL)

DEO contracts with the University of Central Florida (UCF) to implement the Economic Gardening Technical Assistance Pilot Program. UCF established the Florida Economic Gardening Institute (GrowFL) when it was initially awarded the contract in 2009.

GrowFL provides services for second-stage companies, including economic gardening technical assistance, CEO Roundtables, CEO Forums, human resource webinars, workshops, and the “Florida Companies to Watch” recognition event. These activities are targeted to support the second-stage CEOs with operational and revenue-increasing strategies to improve business performance. Technical assistance is delivered through a centrally managed technical assistance team with access to various market research databases and tools to facilitate strategy, market research, web strategy, and search engine optimization. A typical technical assistance consultation is 40 hours and provided at no charge to the client. Work is also handled virtually with clients via conference calls and the use of an on-line collaboration system.¹⁹

¹⁵ Section 288.1082(3), F.S.

¹⁶ Section 288.1082(4)(b), F.S.

¹⁷ Section 288.1082(5)(a), F.S.

¹⁸ Section 288.1082(8), F.S.

¹⁹ Florida Economic Gardening Institute at the University of Central Florida, *GrowFL Program Summary, November 2009 through September 1, 2011*, at 4, available at <http://www.growfl.com/downloads/GrowFL-Final-Report-Summary-09-11.pdf> (last visited March 27, 2013).

Department of Economic Opportunity - Mid-Year Program Report

In December 2012, DEO submitted a Mid-Year Program Report to the Legislature and the Governor, which covers July 1, 2012, through October 31, 2012. The report provided the following information:²⁰

Since July 1, 2012, 99 second-stage companies submitted applications to receive technical assistance. A total of 90 companies within 19 counties were accepted, and applications from nine companies were being processed. The industries represented are classified by North American Industry Classification System as follows:

| NAICS Description | NAICS Code | Number of Companies |
|---|------------|---------------------|
| Administrative and Support Services | 56 | 3 |
| Finance and Insurance Services | 52 | 5 |
| Information Industries | 51 | 8 |
| Management of Companies | 55 | 4 |
| Manufacturing | 31 | 29 |
| Professional, Scientific and Technical Services | 54 | 36 |
| Wholesale Trade | 42 | 5 |
| Total Number of Companies | | 90 |

Office of Program Policy Analysis and Government Accountability - Evaluation of the Florida Economic Gardening Technical Assistance Pilot Program

In 2009, the Legislature directed the Office of Program Policy Analysis and Government Accountability (OPPAGA), by December 31, 2012, to review the technical assistance pilot program and its effectiveness in expanding targeted businesses, and provide a report to the Legislature and the Governor.²¹ In December 2012, OPPAGA published its report, which in summary stated:

- GrowFL experienced several implementation obstacles, including difficulty attracting participants and assessing companies’ eligibility. Consequently, the program served a significant number of ineligible companies and was unable to determine eligibility for many others.
- Companies that received multiple services were more likely to grow after pilot program participation, and most survey respondents found GrowFL services helpful. OPPAGA also found eligible companies were more likely to increase employees and wages than those that did not meet the program’s statutory eligibility requirements. In addition, statistical modeling showed eligible program participants had greater than predicted employment growth in one of three quarters in 2011, with no statistically significant difference in the other two quarters.

²⁰ Florida Department of Economic Opportunity, *Economic Gardening Technical Assistance Pilot Program (Mid-Year) Report*, December 18, 2012, at 3 (on file with the Senate Committee on Commerce and Tourism).

²¹ Section 4, ch. 2009-13, L.O.F.

- During OPPAGA's review, GrowFL took several steps to address OPPAGA's concerns about program implementation and eligibility determination. However, OPPAGA recommended future contracts with the Economic Gardening Institute include additional provisions to improve program reporting and assessment.²²

Economic Gardening Funding History

In 2009, the Legislature appropriated up to \$1.5 million to implement the Economic Gardening Technical Assistance Pilot Program during FY 2009-2010.²³ In 2010, the Legislature appropriated \$2 million for FY 2010-2011, but in 2011 although the Legislature appropriated \$2 million for FY 2011-2012, the Governor vetoed the appropriation.²⁴ In 2012, the Legislature appropriated \$2 million from the State Economic Enhancement and Development Trust Fund for the Economic Gardening Technical Assistance Program for FY 2012-2013.²⁵

III. Effect of Proposed Changes:

Sections 1 and 2 amend ss. 288.1081 and 288.1082, F.S., to make the Economic Gardening Technical Assistance Program (Technical Assistance Program) permanent, rather than temporary. DEO is directed to contract with the University of Central Florida's Economic Gardening Institute to implement the Technical Assistance Program.²⁶

As required in current law, to be eligible to participate in the Technical Assistance Program a business must be a for-profit, privately held, investment-grade business. The bill modifies other eligibility requirements as follows:

- The business must have employed at least 10 persons but no more than 99 persons at the end of the preceding fiscal year. Current law caps the number of employees at 50 persons. The bill removes the requirement that the business has maintained its principal place of business in state for at least the previous 2 years.
- The business must have generated at least \$1 million but not more than \$50 million in annual revenue during the preceding fiscal year. Current law caps the generated amount of revenue at \$25 million. The bill removes the requirement that the business qualifies for the qualified target industry program under s. 288.106, F.S.
- During 2 of the previous 6 years the business must have increased *either* its number of full-time equivalent employees in Florida *or* its gross revenue. Current law requires a business to have increased *both* its number of full-time equivalent employees in this state *and* its gross revenue during 3 of the previous 5 years.

²² The Florida Legislature, Office of Program Policy Analysis and Government Accountability, *GrowFL Participants that Received Multiple Services and Met Eligibility Requirements Experienced Higher Growth*, Report No. 12-14, December 2012, available at <http://www.oppaga.state.fl.us/MonitorDocs/Reports/pdf/1214rpt.pdf> (last visited March 27, 2013).

²³ Section 3, ch. 2009-13, L.O.F.

²⁴ See *supra* note 22 at 3.

²⁵ Specific Appropriation 2280B, s.6, ch. 2012-118, L.O.F.

²⁶ The Economic Gardening Business Loan Pilot Program remains a temporary program.

An additional eligibility requirement is added to require that a business generate a minimum of 51 percent of its revenue outside Florida, be located in a rural community as defined in s. 288.0656, F.S., or be classified within a qualifying NAICS code.

The bill identifies the qualifying NAICS codes as any NAICS code within any of the following NAICS sectors:

- 31-33, Manufacturing;
- 42, Wholesale Trade;
- 51, Information;
- 52, Finance and Insurance;
- 54, Professional, Scientific, and Technical Services;
- 55, Management of Companies and Enterprises; or
- 56, Administrative and Support and Waste Management and Remediation Services.²⁷

Section 3 appropriates \$2 million in recurring funds from the General Revenue Fund to the University of Central Florida to fund the Economic Gardening Technical Assistance Program and to implement the bill during FY 2013-2014.

Section 4 provides an effective date of July 1, 2013.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

More small businesses will be eligible to receive technical assistance through GrowFL.

²⁷ According to GrowFL, the industries identified as qualified target industries under s. 288.106, F.S., are captured under the NAICS codes listed above. *See supra* note 20.

C. Government Sector Impact:

The bill appropriates \$2 million in recurring funds from General Revenue to the University of Central Florida to fund and implement the Economic Gardening Technical Assistance Program during FY 2013-2014.

VI. Technical Deficiencies:

None.

VII. Related Issues:

The OPPAGA report found that the current eligibility requirements were an obstacle to attracting and approving businesses and that GrowFL was serving ineligible businesses.²⁸ The changes made by the bill to expand the eligibility requirements will resolve these issues.

VIII. Additional Information:**A. Committee Substitute – Statement of Substantial Changes:**

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

B. Amendments:

None.

This Senate Bill Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.

²⁸ *Supra* note 22 at 4.