Office of Economic and Demographic Research

Analysis of the Enterprise Zone Program

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BACKGROUND

Summary and Request

Florida's Enterprise Zone Program provides state and local incentives to induce private investment in specific geographic areas targeted for economic revitalization.[1] To qualify, these areas must meet specified criteria, including suffering from pervasive poverty, unemployment, and general distress. Currently, Florida has 65 enterprise zones in 52 of the state's 67 counties.[2]

Qualifying businesses and individuals located within the zones are eligible for state and local incentives. State program 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 for 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 employees of the business 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.

In FY 2013-14, the state awarded $15,767,111 in state incentives to 1,497 businesses and individuals in enterprise zones throughout the state. Local governments report that they awarded $11,373,610 over the same period.[3]

In May 2014, the Speaker of the Florida House of Representatives requested that the Office of Economic and Demographic Research (EDR) and Office of Program Policy Analysis and Government Accountability (OPPAGA) perform additional targeted studies to supplement the 2014 evaluation of the Enterprise Zone Program. EDR was directed to develop "a menu of options that would either improve the state's return on investment (ROI) in the program or increase the program's impact on the state's economy." Specifically, the analysis should:

- Expand the property value analysis from three representative zones to a statewide review, and assess whether there are local characteristics that allow some zones (for example, urban versus rural) to have better results than others;

[1] Enacted in ch. 82-119, *Laws of Florida,* which created ss. 290.001 -- 290.016, F.S., The Florida Enterprise Zone Act.
[2] *See* Department of Economic Opportunity, Bureau of Economic Development, Division of Community Development. *Enterprise Zone Program Annual Report,* November 1, 2014. Tallahassee, Florida.
[3] *Ibid,* pp. 8-9.

- Identify ways to improve the program's direct effects and the state's return on investment, including reconfiguring the program to attract new businesses to the state or otherwise targeting the types of businesses eligible for tax incentives;
- Focus on approaches that improve induced and indirect effects, especially increased reliance on local suppliers;
- Give special attention to the merits of creating specialized hubs that target zones to industry types or introducing new requirements for more geographically compact zones; and
- Explore methods to enable local government participation in the designation of zones, including the cost of any tax incentives offered within the zone.

Each of these topics is discussed separately in the remainder of the paper.

Prior Reviews of the Enterprise Zone Program

In January 2014, EDR released the report "Return-on-Investment for Select State Economic Development Incentive Programs." The report found that:

> "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."[4]

These conclusions were based on a number of factors, including the 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."[5]

Additionally, the report found that:

[4] http://edr.state.fl.us/Content/special-research-projects/economic/EDR%20ROI.pdf

[5] Section 290.003, F.S.,: Policy and purpose.—It is the policy of this state 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. In achieving this objective, the state will seek to provide appropriate investments, tax benefits, and regulatory relief of sufficient importance to encourage the business community to commit its financial participation. The purpose of ss. 290.001-290.016 is to establish a process that clearly identifies such severely distressed areas and provides incentives by both the state and local government to induce private investment in such areas. The Legislature, therefore, declares the revitalization of enterprise zones, through the concerted efforts of government and the private sector, to be a public purpose.

- Unless bundled with other incentives, enterprise zone incentives are an insufficient inducement to relocate to Florida;
- Academic research indicates there is no impact on in-zone expansion, or if anecdotal evidence suggests otherwise, it is possible such expansion is due to the trending rate of growth and general business cycles;
- If any new economic activity is not attributable to these factors, it is likely the business activity is Florida market or resource dependent, which results in no ROI to the state;
- EDR review of property value gains in representative enterprise zones are positive to the local governments, but there are not enough gains to overcome a negative ROI to the state; and
- EDR's conclusions are consistent with recent evaluations of similar programs in other states.

The 2014 report included a property tax analysis of the parcels in three enterprise zones (Hardee, Hernando, and Sarasota). This was a continuation of a prior analysis conducted over a shorter time frame. In the 2010 study, 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 direct impacts to the General Revenue Fund (GR). The REC assumed the economic activity in an enterprise zone would have occurred either within in the zone or somewhere else in the state, whether or not the zone was created. The 2010 analysis indicated that the REC's assumptions were not flawed, even though they did not take into account any impact on property tax revenues. The analysis concluded that Enterprise Zones did not have a consistent, direct, and quantifiable impact on property values. While the analysis did not demonstrate a clear positive impact from construction and redevelopment activities in enterprise zones, it did not find proof that enterprise zones are ineffective from a local perspective.

The 2014 report expanded the 2010 review, adding three additional years of data to the review period. This analysis did support the conclusion that enterprise zones have a direct and positive impact on property values over an extended period of time and that there is a potential benefit to local governments through increased ad valorem (property tax) revenue.

EXTENDED ANALYSIS OF PROPERTY TAX VALUES

To complete the first part of the Speaker's request, EDR extended its prior studies on property values to cover as much of the state as possible and over a longer period. EDR compared the parcels in an Enterprise Zone (EZ) to the parcels in the area surrounding the zone within a two mile buffer (Surrounding Area or SA) to determine if the enterprise zone was successful in improving blight and distress by increasing the property values in the zone. In order to resolve issues caused by significant boundary changes made in 2005 due to the enactment of legislation renewing the Enterprise Zone Program, only parcels that were in the enterprise zone in both 2005 and 2013 were analyzed. The just value and the use code were extracted for each parcel for the relevant years. From the 65 zones, the analysis excluded:

- Zones that were created after 2005 to ensure at least 10 years of data was available for a longitudinal study;
- Some of the very small EZs for which sufficient data could not be obtained; and
- Areas where the zones encompassed the entire county.

Twenty-five of the sixty-five zones were excluded from the study, but a large sample size of 1.46 million parcels remained.

Differential

For both the 2010 and 2014 studies, extensive literature reviews were undertaken. Most of the academic research uses the term "differential" to describe the growth in property values between the enterprise zone and its surrounding area. The differential is a calculation of the difference between the growth rates for the enterprise zones and the areas surrounding the zones. In theory, the patterns of the differentials suggest whether the existence of the Enterprise Zone Program had a disproportionately positive effect on property values. A differential that increases (or becomes less negative) over time would indicate that parcels in the enterprise zone show improving property values relative to the parcels in the area immediately surrounding the zone. A differential that remains stagnant or becomes more negative over time would indicate that the Enterprise Zone Program has not improved the property value of the parcels within the zone relative to the surrounding area.

Rural and Urban Differences

Much of the research looks separately at rural and urban enterprise zones. Rural enterprise zones are at a comparative disadvantage because population size drives many business decisions on where to locate, since there must be sufficient customers and infrastructure for a business to thrive. Accordingly, the enterprise zone must be below a specified statutory population threshold to be classified as a rural enterprise zone. Because rural areas do not attract or retain the same types or number of businesses that urban areas do, the Enterprise Zone Program offers added incentives to businesses that locate within a rural zone. The chart on the following page displays the differences between the current incentives offered to businesses in rural and urban enterprise zones by the state.

Incentive	Rural	Urban
Sales Tax Jobs Credit	30 percent of wages paid if business is located in EZ; has created new jobs; and has hired new eligible employees. 45 percent of wages if 20 percent of all FTEs are employees living in EZ.	20 percent of wages paid if business is located in EZ; has created new jobs; and has hired new eligible employees. 30 percent of wages if 20 percent of all FTEs are employees living in EZ.
Corporate Income Tax Jobs Credit	30 percent of wages paid if business is located in EZ; has created new jobs; and has hired new eligible employees. 45 percent of wages if 20 percent of all FTEs are employees living in EZ.	20 percent of wages paid if business is located in EZ; has created new jobs; and has hired new eligible employees. 30 percent of wages if 20 percent of all FTEs are employees living in EZ.
Corporate Income Tax Credit for Ad Valorem Paid	Up to a max of $25,000 credit for property taxes paid. Up to a max of $50,000 credit for property taxes paid if 20 percent or more of FTEs are living in EZ.	Same.
Building Materials and Business Equipment Sales Tax Refund	Refund up to $5,000 on taxes paid for qualifying purchases. Refund up to $10,000 if 20 percent or more of FTEs are living in EZ.	Same.
Electrical Energy Exemption	50 percent exemption from sales tax for purchases of electrical energy. 100 percent exemption from sales tax for purchases of electrical energy if 20 percent of all FTEs are employees living in EZ.	Same.

Source: Florida Department of Revenue

Commercial, Residential, and Industrial Parcels

The property tax data provided by the Florida Department of Revenue (DOR) contains a special code that characterizes the use of the parcel. For example, if a parcel is used as someone's home, it would be considered a residential parcel. EDR reviewed parcels that could be categorized as commercial, residential, or industrial. Parcels that were categorized as agricultural, government, institutional, or miscellaneous property (generally land being used for public purposes) were excluded from the study.

- Commercial – Includes stores, offices, restaurants, tourist attractions, repair shops, airports, and sports facilities.
- Residential – Includes homes, apartments, mobile homes, and condos.
- Industrial – Includes manufacturing plants, lumberyards, packing plants, and warehousing and storage facilities.

In the 40 zones analyzed, the majority of parcels were residential. Of the parcels located in the zones, 84.2 percent were residential, 11.8 percent were commercial, and 4.0 percent were industrial.

Summary of Results

The following summary details the types of analyses performed on the enterprise zones (EZ) and their surrounding areas (SA). All analyses used the discrete parcel data. A detailed explanation of the analyses and their results can be found on the following pages.

1. Analysis of growth rate differentials for the 40 enterprise zones between 2006-2013. To account for enterprise zones that were added during the window of the analysis (1999-2013), only growth from 2006 to 2013 was analyzed for the state as a whole. The parcels were categorized as commercial, residential, or industrial.
2. Analysis of the zones established prior to 1999, a subset of the 40.
   a) Zones that were established prior to 1999 were compared to their surrounding area to determine if the growth in property values in those EZs saw improvement over the longest period of time available. This was done by comparing the average annual growth rate within the zone from 1999 through 2002 and the average growth rate from 2002 through 2013 to the same growth rates in the surroundin
   b) Analysis 2(a) was segregated into commercial, industrial, and residential parcels.
   c) Analysis 2(a) was segregated into rural and urban enterprise zones.
3. Analysis of the zones established in 2002, a subset of the 40. This analysis compared the property values in enterprise zones that were established in 2002 to their surrounding areas to determine if the designation of an enterprise zone improved property values within the zone. The analysis compared the growth rate in parcels for the three years before and 11 years after the enterprise zone was established. The parcels were then broken out by categories (residential, commercial and industrial) for further review.
4. Analysis of the top five enterprise zones. This was a review of the zones that receive the largest amounts of enterprise zone incentives. The average just value growth rate of the top five enterprise zones that receive the largest amounts of incentives is compared to the growth rates of their surrounding areas.
5. Analysis of average property values for the 40 zones. The average property value of parcels in enterprise zones was compared to the surrounding areas. If the enterprise zones were created in the most distressed and impoverished areas, it would be expected that the average property values per parcel would be lower than the average property value of the parcels in the surrounding area. Zones that were not created in the most distressed, impoverished areas would have skewed results in the other analyses.
6. Analysis of the average annual property value growth rate (by parcel) in an enterprise zone compared to the surrounding area for the entire window of the analysis for all 40 enterprise zones.
7. Analysis of the average property value growth rates of enterprise zones whose boundaries are contiguous and compact versus zones whose boundaries are not contiguous or compact.

Analysis 1 – Growth Rate Differentials 2006-2013

Table 1 : Analysis of Average Property Value Growth Rate, 2006-2013, By Category			
Commercial Parcels	**Surrounding Area**	**Enterprise Zones**	**Differential**
2006-2013	2.05%	2.15%	0.10%
Industrial Parcels	**Surrounding Area**	**Enterprise Zones**	**Differential**
2006-2013	1.71%	2.48%	0.77%
Residential Parcels	**Surrounding Area**	**Enterprise Zones**	**Differential**
2006-2013	-1.79%	-4.40%	-2.61%
# of Parcels included: 1,462,277			

The analysis of 2006-2013 growth rates for all 40 Enterprise Zones indicates that commercial and industrial parcels in Enterprise Zones benefited from being in a zone. The property values of EZ parcels in both these categories grew at a faster rate than the surrounding area's commercial and industrial parcels. EZ residential parcels experienced slower growth than their surrounding areas.

Analysis 2 – Zones established prior to 1999

Table 2A: Analysis of Property Value Growth Rate Differentials Over Time, 1999-2013			
All Parcels	**Surrounding Area**	**Enterprise Zones**	**Differential**
1999-2002	11.11%	10.16%	-0.95%
2002-2013	3.78%	3.76%	-0.02%
# of Parcels included: 1,175,878			

The analysis of pre-1999 enterprise zones generally supports the hypothesis that enterprise zone designation benefits overall property values over an extended period of time. The 1999-2002 EZ average growth rates were about 1 percent less than the growth rates outside the Enterprise Zones. This difference shrinks to close to 0 percent for the growth rates between 2003 and 2013.

Analysis 2B - Zones established prior to 1999 by Category

Table 2B : Analysis of Property Value Growth Rate Differentials Over Time, 1999-2013, By Category			
Commercial Parcels	**Surrounding Area**	**Enterprise Zones**	**Differential**
1999-2002	8.47%	9.04%	0.57%
2002-2013	4.88%	5.73%	0.85%
Industrial Parcels	**Surrounding Area**	**Enterprise Zones**	**Differential**
1999-2002	8.06%	5.72%	-2.34%
2002-2013	5.32%	5.90%	0.58%
Residential Parcels	**Surrounding Area**	**Enterprise Zones**	**Differential**
1999-2002	12.42%	11.69%	-0.73%
2002-2013	3.21%	1.98%	-1.23%
# of Parcels included in the Study: 1,175,878			

This analysis separated the parcels into 3 uses: commercial, industrial, and residential. The analysis shows that both EZ commercial and EZ industrial parcels saw a benefit from enterprise zone designation. Residential parcels did not see a similar benefit, with the growth rate differential unfavorably increasing between EZ and non-EZ parcels in the long run. Since most EZ incentives are structured to benefit businesses, it is not surprising that business-related parcels (commercial, industrial) were the ones showing improvement from being within an enterprise zone.

Analysis 2c – Urban and Rural Zones established prior to 1999

Table 2C: Analysis of Growth Rate Differentials Over Time, 1999-2013							
Urban Areas				**Rural Areas**			
All	**Surrounding Area**	**Enterprise Zone**	**Differential**	**All**	**Surrounding Area**	**Enterprise Zone**	**Differential**
1999-2002	11.12%	9.66%	-1.46%	1999-2002	8.80%	6.82%	-1.98%
2002-2013	3.77%	3.59%	-0.18%	2002-2013	6.04%	3.52%	-2.52%
# of Parcels included in the Study: 1,175,878							

When the analysis separated the enterprise zones between urban and rural counties, the positive effect only occurred within the urban enterprise zones. Although the differential is still negative, it improved within the urban enterprise zones. Rural enterprise zones appeared to be performing worse in the long run. The most likely explanation for this difference is due to the nature of the Enterprise Zone Program. Other state economic development programs aim to either induce expansion or relocation of businesses to Florida. The Enterprise Zone Program has a more narrow purpose of inducing investment only in "severely distressed" areas, effectively shifting existing economic activity into enterprise zones. In urban areas, significant economic activity is already occurring and enough of it shifts to the enterprise zone to increase property values. In rural counties, little economic activity is occurring, resulting in a negligible shift to the enterprise zones.

Analysis 3 – Zones established in 2002 – By Category

Table 3 : Analysis of Property Value Growth Rate Differentials in Zones Created in 2002, By Category

All Parcels	Surrounding Areas	Enterprise Zones	Differential
1999-2002	11.14%	12.12%	0.98%
2003-2013	4.26%	2.86%	-1.40%
Commercial Parcels	**Non-Enterprise Zones**	**Enterprise Zones**	**Differential**
1999-2002	8.66%	6.28%	-2.38%
2003-2013	3.92%	3.07%	-0.85%
Industrial Parcels	**Non-Enterprise Zones**	**Enterprise Zones**	**Differential**
1999-2002	5.96%	4.58%	-1.38%
2003-2013	2.61%	1.70%	-0.91%
Residential Parcels	**Non-Enterprise Zones**	**Enterprise Zones**	**Differential**
1999-2002	12.19%	12.47%	0.28%
2003-2013	4.42%	2.87%	-1.55%
# of Parcels included in the Study: 305,329			

This analysis is an expansion of the previous two studies conducted in 2010 and 2014. It replicates what was done with three enterprise zones and expands it to the 10 enterprise zones that were established in the same year (2002). The first two studies limited the geographic characteristics of the zone to the zones that were compact and contiguous. This analysis includes all zones that were created in 2002, regardless of the zone's boundaries. The results for 1999-2002 show the average growth rate for EZ and SA parcels before the enterprise zone designation. The 2003-2013 period shows the average growth rate in enterprise zones after zone designation compared to the surrounding area. The commercial and industrial parcels in the enterprise zones exhibited a shrinking differential, especially for commercial parcels. This indicates the enterprise zone has a positive effect on those parcels. The residential parcels had the opposite result, indicating the enterprise zone does not have a positive effect on the value of residential property.

Analysis 4 – Top Five Enterprise Zones

The following table shows the growth of the enterprise zones that had the highest number of specified tax credits taken in Fiscal Year 2006-07 through Fiscal Year 2013-14. These tax credits include the sales tax job tax credit, the sales tax exemption on electricity and the ad valorem tax credits. DOR does not extract the data necessary to determine which zones benefitted from Corporate Income Tax credits and to what degree. Collectively, Corporate Income Tax credits account for 21 percent of all enterprise zone credits or exemptions issued. While the data is not available by enterprise zone and was not included in this analysis, it is logical to conclude the pattern of sales tax credits taken follow the same general pattern of those taken for corporate income. The top 5 enterprise zones are:

- Miami Dade – 58% of total
- Tampa – 6% of total
- Jacksonville 5% of total
- Broward County – 4% of total
- St. Petersburg – 4% of total

Collectively, the top five enterprise zones account for 77 percent of all incentives granted for enterprise zone credits/exemptions between Fiscal Year 2006-07 and Fiscal Year 2013-14.

Enterprise Zones*	EZ Average Just Value Growth (1999-2013)	Surrounding Area Average Growth Just Value (1999-2013)
Miami	6.4%	6.3%
Tampa	3.6%	5.0%
Jacksonville	2.8%	3.5%
Broward County	4.9%	5.7%
St. Petersburg	2.8%	5.0%

*Note – All of the top five zones were established in 1995.

Miami is the only zone whose average growth in just value is higher (albeit slightly) than the surrounding area. It appears that credit volume does not conclusively lead to a better result.

Analysis 5 – Value of Parcels Compared to the Surrounding Area

The primary purpose of the Enterprise Zone Program, as expressed in statute, is 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." Given this statutory purpose, it should be safe to assume that the value of parcels in enterprise zones would be lower than otherwise.

Most of the enterprise zones analyzed had an average parcel value less than the surrounding area at the beginning of the period. There were 10 enterprise zones whose average just value per parcel was higher than the surrounding area at the beginning of the period. Five of those (Holmes, Liberty, Madison, Kissimmee, and Putnam) were EZ's enacted during the window of the analysis (1999-2013). Of those five, only one--Kissimmee-- started at a lower average than the surrounding area.

Kissimmee exceeded the average parcel value of the surrounding area three years after zone designation. Whether the growth in the Kissimmee enterprise zone can be credited solely with enterprise zone incentives is hard to discern. Kissimmee averaged less than $75,000 in credits and exemptions related to the sales and use tax every year after its designation.

In Miami-Dade, the residential parcels averaged higher just values within the enterprise zone compared to its surrounding area at the beginning of the period ($148,855 in the EZ vs. $143,417 in the SA). The majority of parcels in the enterprise zone and its surrounding area in Miami are residential parcels (77.5 percent in the EZ and 94.9 percent in the SA). If there is reason to believe that the enterprise zones were not placed in the worst areas of the county to begin with --at least in terms of property value-- the results of any property tax analysis would be skewed.

Analysis 6 - Average Annual Growth

For the parcels that were in an enterprise zone for the entire window of the analysis (pre-1999), only four zones had higher growth within the zone than its surrounding area. Those zones are Gainesville, Miami-Dade, Jackson and Ft. Myers. Miami-Dade is the top recipient of enterprise zone incentives, receiving an average of $14.7 million in incentives per year in Fiscal Year 2006-07 through Fiscal Year 2013-14. Gainesville averaged $339,407 in those same years, Jackson - $225,403, and Ft. Myers - $56,770. It is questionable to assume the small amount of incentives given in three of those zones would contribute to the reduction of blight and distress and cause property values to be higher than the surrounding area.

Analysis 7 – Contiguous and Compact Zones

EDR reviewed the geographical boundaries of each zone and labeled a zone as compact and contiguous or not. Those zones' average growth rates from 1999 to 2013 were compared to the surrounding areas to see if there was a pattern of growth that was different between those two types of zones. Zones that were considered contiguous and compact did not seem to fare better than zones that were more spread out. The average growth rate for contiguous and compact zones (2.92 percent) was less than the surrounding areas (4.55 percent) while the average growth rate for non-contiguous zones (1.58 percent) was also less than its surrounding areas (2.81 percent). The greater difference found in compact zones may be due in part to boundary selection that encompasses areas which are more likely to develop.

Findings and Conclusions

While prior studies found that enterprise zones benefit property appreciation over a sufficiently long period of time, more in-depth analysis finds that the greatest benefit is largely concentrated to a few specific property types. In this regard, there is evidence to believe that enterprise zones benefit commercial and industrial parcels in urban enterprise zones.   However, this effect is not seen in rural enterprise zones. There is also evidence that residential properties do no detectably benefit from being in the zone, whether the zone is urban or rural. Since the vast majority of the parcels in enterprise zones are residential, it is likely that enterprise zone designation provides only a limited benefit to overall property appreciation and eliminating blight. To the extent it exists, the benefit would accrue to local governments and not the state.

IMPROVING THE PROGRAM'S DIRECT EFFECTS AND THE STATE'S RETURN ON INVESTMENT

The chart below describes general characteristics of incentive programs that help produce positive returns on investment (ROI) for the state of Florida. While, the Enterprise Zone Program currently offers incentives for job creation and capital investment, they are not limited to new and expanding businesses. In many instances, the specific combination of drivers shape the result. As a note of caution, these drivers are designed to improve the state's ROI, and will not necessarily cure blight or improve a severely distressed area.

ROI Drivers	Effect on the ROI	How?	Specific Program Features
Specific Capital Investment Requirements	Capital investment requirements contribute towards increasing the ROI for the state.	Capital investment usually takes the form of construction, but can be machinery and equipment. The benefits of construction are typically localized. The work is labor intensive, and the wages are spent locally which also improves indirect and induced effects. Further, 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.	Capital investment of physical space has the strongest effect (i.e. construction) due to backward linkages to local suppliers. Machinery and equipment investment have smaller effects, since many of these purchases are tax-free. The strongest results are achieved when these requirements are in tandem with a market or resource independence requirement. (See below).
Specific New/Retained Job Requirement	Requiring job creation or retaining jobs that would otherwise leave the state has a positive impact on the ROI.	New or retained jobs that would have otherwise left the state bring additional income into an area. Part of the income is spent locally, leading to additional tax revenue for the state.	New jobs should be new to the state (not new to the area) from a new business or a business relocating to Florida. Retained jobs should pass a "but for" test indicating that the company would have left Florida. A company that could easily relocate would have: locations in other states, not be market or resource dependent, and not be location-bound due to prior investments.
High Wage Requirements	High wage requirements contribute towards increasing the ROI to the state.	High wage requirements are linked to higher output and productivity as well as more household spending. The county average may not be a high wage from a statewide perspective.	Higher wages lead to greater consumption. However, hiring underemployed and unemployed workers, even at a lower wage, may increase the ROI as it reduces public assistance dollars. Further, those employees spend more of their wages on consumption rather than savings.

Job Training Requirement	On the job training (OJT) including GED assistance, has a positive effect on the state's ROI.	OJT and GED assistance improves the chances of an employee's retention and promotion. The average wage of a worker increases as his education level increases.	OJT and GED assistance have lasting benefits for the employee. Privately funded initiatives defray state costs.
Targeting Industries with High Multipliers	Targeting industries with high multipliers increases the state's ROI.	By targeting certain industries with high multipliers, a greater ROI can be produced. Industries with low multipliers drag down the ROI.	Targeting industries with lower multipliers may be desirable in certain cases, but the trade-off is a lower ROI. In most instances, excluding service based industries leads to better results.
Market or Resource Independence Requirement	There is a negative effect on the ROI when incentives are given to businesses that would have created or retained jobs whether the incentive was given or not.	Businesses that are dependent on Florida's population growth or resources are problematic. While the projects may be technically qualified to receive an incentive from the 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 state's investment is a pure loss. Even if that particular business did not come into existence, some other business would likely take its place.
Targeting Businesses with High Export Volume or Federal Dollars	Targeting businesses with strong export capability or that bring in federal dollars improve the ROI.	Businesses that bring in dollars from outside the state grow the state's economy.	By requiring businesses to have a percentage of their products be exported or to receive federal funding, the state's economy is expanded and diversified.
"But For" Requirement	New or expanding businesses that would not have existed "but for" the incentive improve the state's ROI.	Businesses that would otherwise have existed bring in no additional dollars to the state. Similarly, an incentive that is too small to induce new activity results in limited economic gain.	In many of these cases, the state's investment is a pure loss.
Limit State Investment to No More than Needed to Accomplish the Goal	Actions that reduce the state's cost improve the ROI, assuming the outcomes stay the same.	Some form of local participation (incentives or required matches) should be considered in lieu of state investments for incentives that produce largely local, non-taxable or property tax-related results. The size of the state incentives should be linked or calibrated to the expected gain in state revenue.	Local contributions towards a project may have an ambiguous affect on the state's ROI due to the apportioning process. The gain must be strong enough to produce a solid ROI for the state after apportioning.

IMPROVING INDUCED AND INDIRECT EFFECTS

Increased Reliance on In-State or Local Suppliers

Academic research regarding economic geography—what Paul Krugman refers to as the "location of factors of production in space"—is fairly limited.[6] The little that does exist usually focuses on multinational enterprises and domestic suppliers. Even so, many analogies can be made to the state environment. The most important point for the analysis of state economic development incentives is that a strong reliance on local suppliers of inputs (referred to as backward linkages) produces higher multipliers—and therefore higher returns on investment for the state. This network of interdependence between businesses and their suppliers can be fostered during the selection process by imposing a requirement that these relationships exist.

Industries with strong backward linkages generate economic activity far beyond the nominal value of their products when they spend locally on inputs instead of purchasing those intermediate goods and services from outside the state. Each dollar that remains in Florida continues to boost local economic activity, employment, and ultimately tax revenue.[7] All else being equal, the stronger the linkage is, the greater the impact will be on the state's economy. A study done in Arizona found that using local independent suppliers resulted in three times the economic benefit of using national chains.[8]

Backward Linkages

Backward linkages represent the interconnection of an industry to other industries from which it purchases its inputs in order to produce its output. An industry has significant backward linkages when its production of output requires substantial intermediate inputs from many local industries[9].

There is widespread agreement in the economic literature that backward linkages between multinational enterprises (foreign) and domestic (local) suppliers are good for the domestic economy.[10] To make this point relevant to Florida, the foreign enterprise can be viewed as a proxy for a new business to the state, and of domestic suppliers as existing suppliers of intermediate goods. For many businesses, the existence of nearby suppliers helps them choose between alternative site locations by reducing transportation costs and increasing economies of scale. One study found a 1 percent change in the size of the backward multiplier increases the probability of a manufacturer selecting a particular location by 17.2 percent.[11]

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[6] See Krugman's "Increasing Returns and Economic Geography," in the *Journal of Political Economy*, Vol. 99, No. 3, pp.483-499.
[7] http://ilsr.org/rule/local-purchasing-preferences/
[8] http://www.localfirstaz.com/studies/procurement-matters/procurement-matters.pdf
[9] Bureau of Economic Analysis
[10] Rodríguez-Clare, 1996; Markusen and Venables, 1999; Javorcik, 2004; Alfaro et al., 2006
[11] See Hefner and Guimaraes' "Backward and Forward Linkages in Manufacturing Location Decisions Reconsidered" in *The Review of Regional Studies*, 24(3), pp.229-244.

However, businesses with strong backward linkages also benefit the surrounding community. Generally, backward linkages imply that the businesses use local suppliers for the intermediate goods used in the production process. By using local suppliers, the area retains the dollars from the new enterprise. In businesses with weak backward linkages, leakages occur when the dollars leave the state. The best way to estimate the strength of backward linkages is through output multipliers used predominantly within input-output (I-O) models; these multipliers gauge both direct and indirect backward linkages. High multipliers reflect stronger backward linkages.

Of interest, a 2009 study[12] conducted by the Kiel Institute for the World Economy found that granting subsidies to the local input manufacturers encourages procurement from foreign firms because of the potentially lower costs and capacity for a higher volume; however, the foreign firms need time to find local suppliers.

Once again keeping in mind the conversion of foreign to new business and domestic to local suppliers, the study states:

> *While backward linkages may have these positive effects on domestic firms they are by no means automatic results of an influx of foreign multinationals. Indeed, research has pointed out that linkages are created, and produce benefits, only when certain conditions are met (Chung and Kim, 2003; Larraín et al., 2000; Belderbos et al., 2001; Alfaro et al., 2006).*
>
> *For example, local suppliers need to be able to manufacture inputs at a sufficiently high capacity before they can hope to secure the custom of foreign MNEs. Others have pointed out that local suppliers have to be sufficiently advanced technologically to absorb knowledge spillovers and deal with the demand for specialised inputs.*

The study suggests that facilitating a strong pool of local suppliers can bring in businesses that would benefit from those backward linkages. This is a different approach from most economic incentives that are focused solely on businesses that are new to the state.

Finally, efforts to improve the direct impact also strengthen indirect and induced effects.

Conclusion

The literature suggests there are three ways to improve indirect and induced effects:

- By improving the direct effects on the front-end, primarily through the creation of more jobs, increased facilitation of new business establishments in targeted industries, enhanced promotion of higher salaries, or additional capital expenditures;
- By imposing a requirement for backward linkages in the selection of firms for incentives; and
- By incentivizing the creation of strong pools of local suppliers in key locations.

[12] Kiel Working Paper No. 1554 – September 2009

SPECIALIZED HUBS AND OTHER ALERNATIVES

Several alternatives to the current Enterprise Zone Program design have been suggested during the legislative process. They include the creation of areas of development that target specific industries or types of business, as well as requiring a more compact configuration that is narrowly drawn.

Some of these ideas would fundamentally change the nature of the program, while others could be added to the existing program as another option. A hybrid approach would make the new zones eligible for state incentives, while the existing zones would be subject to local referendum and limited to local funding.

Cultural and Arts Districts are also known as "creative districts." The development of districts dedicated to this sole purpose is an emerging redevelopment strategy for local governments throughout the US. Each district is promoted as "a well-recognized, labeled, mixed-use area of a city in which a high concentration of cultural facilities serves as the anchor of attraction and robust economic activity."[13] While some states facilitate this strategy by offering planning grants, for the most part these districts are locally conceived, initiated, organized, and funded.

Current law neither prohibits nor encourages the inclusion of arts and cultural districts as an enterprise zone option. Several of the incentives that exist today could facilitate the establishment and development of these districts. For example:

- To the extent that for-profit and not-for-profit arts and cultural enterprises hire zone residents, and these entities have sales or corporate tax obligations against which the jobs tax credit can be applied, arts entities could benefit from the jobs tax credit; and
- To the extent that for-profit and not-for-profit arts and cultural enterprises purchase building materials and business equipment, and they pay sales taxes on these purchases, they could benefit from the sales tax refund.

There may be symbiotic gains by encouraging the development of art districts in lieu of traditional enterprise zones. To the extent that the presence of for-profit and not-for-profit arts and cultural enterprises in the enterprise zone encourages the development of adjacent retail and hospitality industries (such as restaurants or art supply stores), there is likely to be employment opportunities for zone residents. The combination of direct benefits from arts enterprises and indirect benefits from local suppliers and adjacent businesses could contribute to a reduction in blight and improve the area economy. However, to increase the likelihood that these districts would draw visitors from outside the state—essential to developing a positive ROI—their number would have to be limited. In this regard, it would be highly improbable that more than a handful of these zones could be successful.

If interested, the legislature could consider specific strategies and new incentives to encourage the development of art districts. For example, some local areas may lack the expertise to develop this type of specialized district. The knowledge gap could be alleviated through state planning grants, perhaps

[13] http://www.americansforthearts.org/by-topic/cultural-districts

coordinated by the Department of State, to fund initial training and on-going assistance to the new districts. Such grants could be contingent on the development of community partnerships, coordination with existing Community Redevelopment Agencies, and local government sponsorship and funding.

These efforts would be contingent upon local designation of a geographically defined blighted area as an arts and cultural district with special local benefits to those actively involved in alleviating the blight. For example, local government could provide loans to artists to purchase and renovate city-owned or acquired property for studios and adjacent living facilities. Local government could also provide regulatory relief for these properties.

At least 12 local governments have certified local arts and cultural districts located throughout the United States. Those local governments have provided both technical assistance and on-going promotion through state funded programs.[14]

Industry Specific Zones are geographic areas that foster clusters of specific industries such as healthcare, high technology, manufacturing or research and development. This would entail a completely different configuration than today's zones, which are predominantly residential in use. To accomplish the change, the existing zones would be eliminated and new zones authorized—each targeted to a specific industry cluster. To ensure the maximum return to the state, the business clusters would need to be related to industries with high multipliers or backward linkages.

Usually referred to in the economic literature as agglomeration or coagglomeration, the economic concept is that related industries benefit from locating near each other through economies of scale, knowledge transfer and networking, and development of a specialized pool of labor skills.[15] Even when the firms directly compete with each other, there are advantages from attracting more customers or suppliers than any one company could on its own. According to Krugman and Venables:

> "Geographers have long noted the importance of "industrial districts" in interregional specialization within the United States. In many industries firms tend to cluster together, drawn by the availability of a strong local base of specialized suppliers (often including a pool of labor with specialized skills); this local base in turn owes its existence to the local concentration of demand."[16]

While industry clustering tends to occur naturally in healthy economies, it can be induced with sufficient incentives to offset the downside of being in a blighted area—so long as the general area otherwise meets the industry cluster's needs for customers, suppliers, transportation and workers. In this regard, new incentives that are more tailored to ongoing commercial or industrial development should be

[14] "State Cultural Districts," State Policy Briefs, 2012 by the National Assembly of State Arts Agencies. http://www.nasaa-arts.org/Research/Key-Topics/Creative-Economic-Development/StateCulturalDistrictsPolicyBrief.pdf

[15] For a general discussion, see Ellison, Glaeser and Kerr's study entitled "What Causes Agglomeration? Evidence from Coagglomeration Patterns" published as Working Paper No. 13068 by the National Bureau of Economic Research, April 2007, at the following link: http://www.nber.org/papers/w13068.pdf

[16] See Krugman and Venables' study entitled "Integration, Specialization, and Adjustment" published as Working Paper No. 4559 by the National Bureau of Economic Research, December 1993, at the following link: http://www.nber.org/papers/w4559.pdf

considered. For example, eliminating the sales tax on the rental of real property for businesses falling within the new zone's industry cluster. Jobs-related incentives would be designed to meet the policy goals deemed the most important by the Legislature and relevant to the selected industry clusters. The options range from credits for providing on-the-job training and GED assistance to paying higher than normal salaries; however, the requirement that the employees live in the zone would be removed. Finally, because specialized construction and equipment may be needed for the designated industry cluster, the existing refund for building materials and business equipment should be retained. The state's return on investment would be shaped by the ultimate design of the program.

Foreign Trade Zones (FTZs, a.k.a. free trade zones) are geographic areas where goods may be landed, handled, manufactured or reconfigured, and re-exported without incurring customs duties. Host jurisdictions benefit because zone businesses provide jobs to area residents. Because the final product is not available for sale in the host county, it does not displace domestic products, or products on which tariffs have been levied.

Over 200 communities in the United States have FTZs, 20 of which are in Florida. [17] The Miami Free Zone is one of the largest privately owned and operated general purpose zones in North America. Founded in 1976, it employs some 1,000 people and more than $1 billion in goods pass through its 850,000 square feet of facilities every year.[18]

Current law neither prohibits nor encourages the inclusion of FTZs in enterprise zones. If local authorities determine there is merit to this economic development strategy, they are free to pursue it. The state could build upon the FTZ foundation by developing specific strategies and incentives to encourage further development. However, the linkage to blighted areas would be largely lost by virtue of the requirement that an FTZ be in an area where goods can be landed. It is also unlikely that many more (if any) zones than the current 20 could be established. The state's return on investment would be shaped by the ultimate design of the program.

Geographically Compact Zones are not specifically required, but imposing this standard could help focus attention to the Legislature's most important policy goals.

Today, the Enterprise Zone Program's mission is bifurcated and the two components can compete against each other. As expressed in statute, the primary purposes of the Enterprise Zone Program are to "induce the investment of private resources in productive business enterprises located in severely distressed areas" as well as "to provide jobs for residents of such areas." Census blocks are used to configure zones. Each block must have a poverty rate of 20 percent, and at least half of the block groups must have a poverty rate of 30 percent. Rural zones must have at least 20 percent poverty rate for the entire county.

[17] http://enforcement.trade.gov/ftzpage/letters/ftzlist-map.html

[18] https://www.miamichamber.com/about/greater-miami-foreign-trade-zone

Generally, the larger the zone, the more room there is for the two goals to operate in isolation. This may negatively impact efforts to alleviate poverty or meet other socio-economic goals, given limited government resources.

There are indications that many enterprise zones include a significant portion of relatively unpopulated areas zoned for commercial or industrial activities within the county or city (such as airports, commercial parks, etc.), or include properties actively undergoing development (hotel and retail complexes). Consequently, businesses in these areas are eligible for subsidies for economic activity that would likely otherwise occur absent the incentive. In effect, the state incentives collectively function as a general business subsidy. This subsidy is both widely distributed and available for routine improvements and equipment replacement. This potentially dilutes the impact of the state incentives for the other part of the mission, especially when the available jobs are minimum wage.

To address this circumstance, the Legislature could limit incentives to those businesses located in severely distressed areas, rather than in census blocks that contain distressed areas. If deemed necessary, exceptions could be made for rural counties with high levels of countywide poverty. The state's return on investment would be shaped by the ultimate design of the program, but the smaller program would limit the state's costs.

LOCAL GOVERNMENT FUNDING PARTICIPATION

While EDR's 2014 analysis of the Enterprise Zone Program did not measure the specific return on investment for local governments, it found that the benefits (to the extent they exist) largely accrue to local governments through increased property taxes. One approach to increasing the state's return on investment for the traditional program would be to reduce the state's costs while increasing local funding participation. This change aligns with one of the options presented earlier in this paper for improving the state's return. Namely, some form of local participation (either incentives or required matches) should be considered in lieu of state investments for incentives that produce largely local, non-taxable or property tax-related results. By going a step further and eliminating the state's investment in the program altogether, policymakers would be acting on the option of linking or calibrating the size of the state incentives to the expected gain in state revenue—which in this case is zero.

On the local level, different approaches are used to fund economic development initiatives. Examples include ad valorem tax abatements, free land, reduced rent on government owned facilities, and the use of general funds to meet local matches for state incentive programs such as the Qualified Target Industry Tax Refund (QTI) program. At least one local government has required developers to contribute a portion of their state incentives from the Enterprise Zone Program to fund a separate local program for affordable housing.[19]

Local officials have expressed support for the Enterprise Zone Program, noting the economic benefits to their respective jurisdictions. If the Legislature chooses to make the program a local option with the funding responsibility shifted to the benefitting jurisdictions, it may also want to consider providing additional flexibility or new fiscal resources to the local governments that continue in the program.

These additional resources could include:

- Expanding the authorized uses of the Local Government Infrastructure Surtax and Small County Surtax to include funding incentives for local option enterprise zones; or

- Replacing the Emergency Fire Rescue Services and Facilities Surtax with a surtax of up to one percent to fund incentives for local option enterprise zones.

Eight separate local discretionary sales surtaxes are currently authorized in law to provide funds for specified purposes for county and municipal governments and school districts. The potential combined tax rate varies from county to county depending on the particular surtaxes that can be levied within that county. The current rates range from a low of 1.5 percent in Madison County to a high of 3.5 percent in Alachua, Franklin, Gulf, Leon, and Wakulla counties. To date, only Madison County is at its taxing capacity.

[19] 2008 Boundary Modification Resolution – Miami-Dade County

All of Florida's 67 counties may levy the Local Government Infrastructure Surtax, for up to one percent, subject to referendum approval. Seventeen counties currently levy the surtax. Thirty-one of the 67 counties are eligible to levy the Small County Surtax, for up to one percent, by extraordinary vote of the county commission if the proceeds are used for operating purposes. If the proceeds are used instead to service bonded indebtedness, the authorization must be made by referendum. Currently, 29 of the 31 eligible counties levy the surtax.

The Legislature could consider expanding the authorized uses of the Local Government Infrastructure Surtax and Small County Surtax to include funding incentives for local option enterprise zones. Providing this authority will allow counties the flexibility to fund incentives, to the extent that these revenues are not already pledged to debt service.

Sixty-five of Florida's 67 counties are authorized to levy the Emergency Fire Rescue Services and Facilities Surtax for up to one percent, subject to referendum approval. Only those counties that have already imposed two separate discretionary surtaxes without expiration (to date, Miami-Dade and Madison, and certain portions of Orange and Osceola) are restricted from levying the surtax.

In the five and one-half years since its enactment, no county has levied the surtax. Additionally, no county has authorized this surtax levy for the 2015 calendar year.

The Legislature could consider replacing the Emergency Fire Rescue Services and Facilities Surtax with a surtax to fund incentives for local option enterprise zone programs. Because the new surtax would supplant an existing one, it would not expand county taxing capacity for the 65 counties that are currently authorized. Further, it would not impede a county government's ability to levy any of the other local discretionary sales surtaxes currently available to it. Since no county government has yet authorized the levy of this surtax, no local government entities would be impacted by its replacement.

At the one percent rate, the revised surtax would generate a significant amount of revenue for local incentives. During the 2014-15 local fiscal year, an estimated $3.2 billion could be generated from a one percent surtax levy by all counties in the state. An estimated $1.6 billion or $793 million statewide could be generated from a 0.5 percent or 0.25 percent levy, respectively. Policymakers would have to determine whether the revised surtax (and the local option enterprise zone) would be authorized by voter approval in a countywide referendum or a vote of the county's governing body.