Returns on Investment:
Key Results, Findings & Recommendations from FY 2016-2017 Reports

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Economic Development Concept...

Economy's Natural or Expected Path

Economic Development

An attempt to shift the Economy's Natural or Expected Path to a "higher" or "better" economic level.

Active Intervention

Population Growth

The state's primary engine of economic growth, fueling both employment and income growth.

Florida is expected to almost double the nation's average annual growth rate between 2015 and 2030, with 92.9% of the growth coming from net migration. Population growth in isolation naturally attracts those businesses that are market dependent. These are projects where the principal reason for a new business to move to Florida or for an expansion of an existing business is that their expected clients will be primarily or solely based in Florida.

ROI Evaluation Factors...

Has the Natural Path been altered?
- "But For" the program or incentive
- Market (or resource) dependency
- Substitution

If so, to what extent?
- New Money from Outside the State (such as exports or tourists)

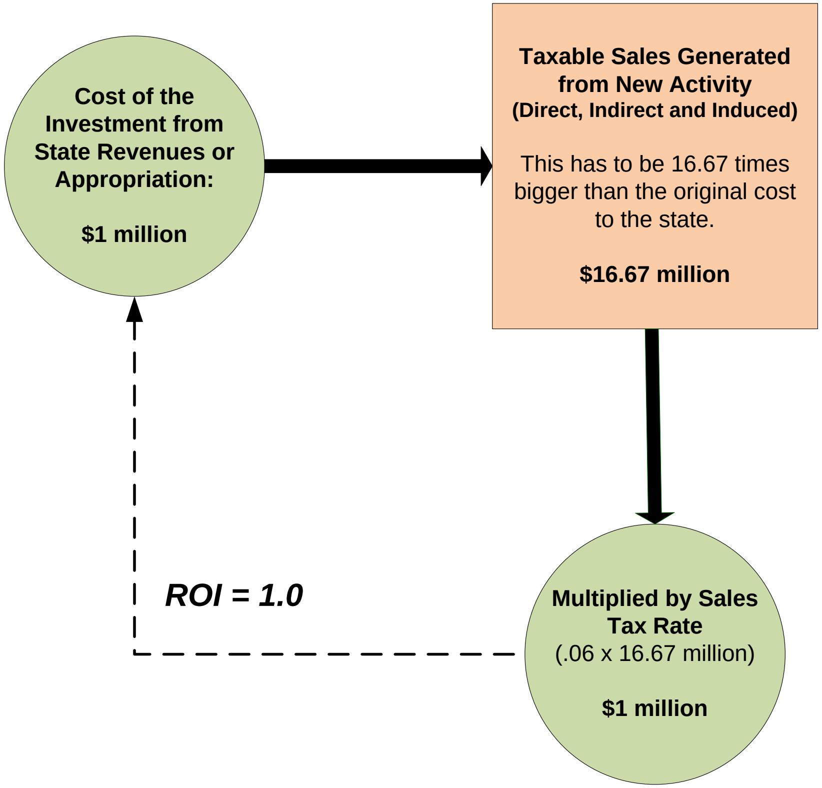
And, at what cost?
- Any state expenditure made for economic development incentives or programs is a redirection from the general market basket of goods and services that otherwise would have been purchased by the state or left with the taxpayer.

Return on Investment (ROI)...

In EDR's work, the term "Return on Investment" is synonymous with the statutory term "economic benefits" which is defined in s. 288.005, Florida Statutes.

"The direct, indirect, and induced gains in state revenues as a percentage of the state's investment. The state's investment includes state grants, tax exemptions, tax refunds, tax credits, and other state incentives."

Sales Tax Example...



ROI In Practice...

- The measure is ultimately conditioned by the state’s tax policy which determines what is taxable.

- 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) to round out the analysis.

- The ROI does not address issues of overall effectiveness or societal benefit; instead, it focuses on tangible financial gains or losses to state revenues.

- It is entirely possible for a project or program to have a negative return on investment but still be desired (for example, to subsidize an essential activity that wouldn’t otherwise have occurred).

Meaning of Returns...

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 or the costs are greater than the expected benefit.

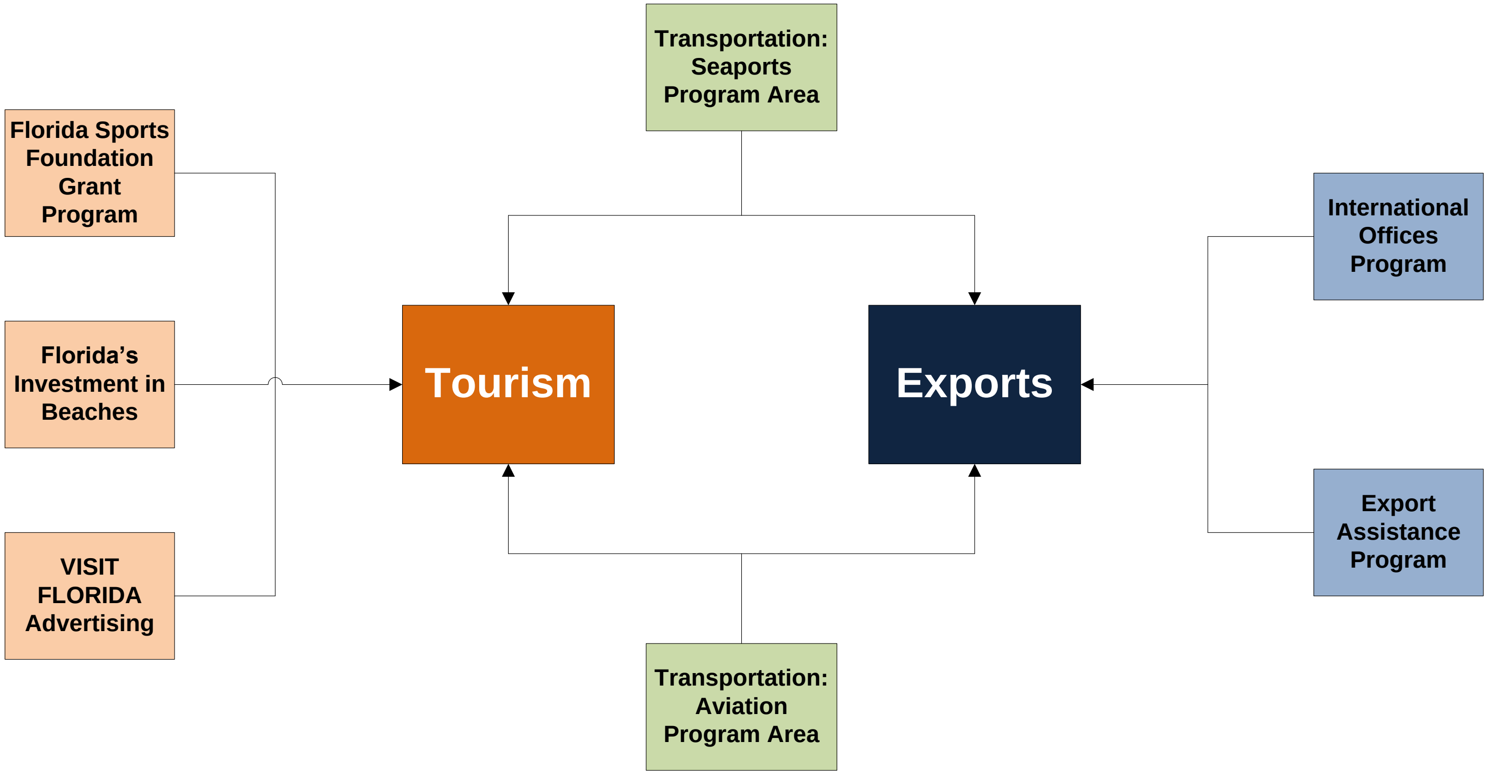
The numerical ROI can be interpreted as return in tax revenues for each dollar spent by the state. For example, a ROI of 2.5 would mean that $2.50 in tax revenues is received back from each dollar spent by the state.

Return On Investment Analyses

Conducted by the Office of Economic and Demographic Research

Ranked Incentives and Investments	CURRENT ROI	PRIOR ROI	STATUS
Florida Sports Foundation Grant Program	5.6		More than Breaks Even (State makes money from the investment)
Economic Evaluation of Florida's Investment in Beaches	5.4		
Qualified Target Industry (QTI)	4.4	6.4	
International Offices Program	4.0		
VISIT FLORIDA Advertising	3.2		
Transportation: Seaports Program Area	2.7		
Export Assistance Program	1.9		
Transportation: Aviation Program Area	1.7		
Quick Action Closing Fund (QACF)	0.60	1.1	Does Not Break Even (however, the State recovers a portion of the cost)
Entertainment Industry Sales Tax Exemption (STE)	0.54		
Capital Investment Tax Credit (CITC)	0.43	2.3	
Entertainment Industry Financial Incentives Program (Tax Credit or FTC)	0.43		
Brownfield	0.30	1.1	
Professional Sports Franchise Incentive	0.30		
Transportation: Roads & Highways	0.19		
New Markets Development Program	0.18		
Spring Training Baseball Franchise Incentive	0.11		
Innovation Incentive Program (IIP)	0.10	0.20	
Quick Response Training Program	0.09		
Urban High-Crime Area Job Tax Credit	0.07		
Transportation: Public Transit	0.05		
High-Impact Sector Performance Grant (HIPI)	0.05	0.70	
Transportation: Rails	0.02		
Enterprise Zones	-0.05		State Loses All of Its Investment (plus incurs additional costs)
Professional Golf Hall of Fame Facility Incentive	-0.08		
International Game Fish Association World Center Facility Incentive	-0.09		

Seven of the “Top 8” share the same reason for being there.



Tourism and Exports both bring new dollars into the state and grow the economy.

Some Programs Have ROIs That Are Dampened by the State's Tax Structure, But Are Important to the Economy...

RETURN-ON-INVESTMENT REAL GDP & REAL DISPOSABLE PERSONAL INCOME		
Progam (Highest to Lowest By Real GDP)	3-Year Average Real Gross Domestic Product (Millions of $)	3-Year Average Real Disposable Income (Millions of $)
Roads & Highways Program	$18,962.8	$20,546.7
Aviation Program	$9,093.5	$9,867.7
Seaports Program	$6,396.4	$6,920.3
Qualified Target Industry Tax Refund	$773.3	$544.3
Quick Action Closing Fund	$666.3	$446.0
Capital Investment Tax Credit	$426.3	$299.0
Public Transit Program	$411.7	$446.3
New Markets Development Program	$154.2	$105.8
Rails Program	$88.6	$96.0
Innovation Incentive Program	$56.0	$52.0
Brownfield Redevelopment Bonus Tax Refund	$1.6	$1.4
High-Impact Sector Performance Grant	$0.7	$0.7
Transportation Programs 3-Year Average: FY2013-14 to FY2015-16 Economic Development Programs 3-Year Average: FY2012-13 to FY2014-15		

Florida's Real GDP in 2015 was $795.0 billion. This means the Roads & Highways program area represented about 2.4% of the economy. It averaged a return in net state revenues of nearly $825 million per year during this period, but its ROI was only 0.19 (meaning the state of Florida received only 19 cents back in tax revenue for every dollar spent). This dichotomy has to do with the state's tax structure and the cost of the program.

Additional Measure to Supplement ROI: Net GDP per State Dollar...

Program	Return on Investment		Net GDP per State Dollar	
Aviation Program*	1.718	(3)	44.136	(3)
Brownfield Redevelopment Bonus Tax Refund	0.302	(6)	7.281	(6)
Capital Investment Tax Credit	0.434	(5)	19.170	(5)
High-Impact Sector Performance Grant	0.051	(11)	0.840	(11)
Innovation Incentive Program	0.095	(9)	2.798	(9)
New Markets Development Program	0.184	(8)	7.189	(7)
Public Transit Program*	0.053	(10)	1.795	(10)
Qualified Target Industry Tax Refund	4.372	(1)	158.725	(1)
Quick Action Closing Fund	0.577	(4)	25.392	(4)
Rails Program*	0.025	(12)	0.625	(12)
Roads & Highways Program*	0.194	(7)	3.963	(8)
Seaports Program*	2.705	(2)	69.822	(2)

*Transportation numbers are calculated from analyses of 5 future years, all other values are of 3 historic years

Note: Values in parenthesis indicate rankings in the specified measure.

- The additional measure considers the change in state GDP resulting from the state's tax dollars contributed. This measure allows policy makers to identify programs that have a significant impact on the state's economy, as measured by GDP, even if they have a minimal impact on state tax revenues.

- When interpreting Net GDP per State Dollar, values greater than zero indicate that the state economy has expanded as a result of the program. Values below zero indicate that the state economy has contracted as a result of the program.

Other Programs Have Design Flaws That Are Revealed by the ROIs...

- The now common use of escrow was the major factor negatively affecting the return on investment for the **QACF** program. Relative to the prior analysis, the Department of Economic Opportunity (DEO) has fully implemented its authority to reserve future grant funds for a project by placing the awarded funds into an escrow account managed by Enterprise Florida, Inc. The funds remain in the account until such time that it meets specific contractual milestones such as job creation and/or capital investment. This prevents the funds from reaching the economy.

- While not specific to QACF, EDR has previously studied the two types of funding models:

  - Reserve Scenario...ROI of 0.6 over a five-year-period.
  - Pay-As-You-Go Scenario...ROI of 2.6 over a five-year-period.

  - With respect to state revenues, the Reserve Scenario does not break even, meaning the state only recovers a portion of its cost. In contrast, the Pay-As-You-Go Scenario more than recovers its cost.
  - Florida's economy is overall better off under Pay-As-You-Go Scenario.
  - The state's Gross Domestic Product (GDP), Output, Personal Income, and Job Creation are all higher under Pay-As-You-Go.

- QACF's drop from an ROI of 1.1 to 0.6 is consistent with the expected results from EDR's more general study.

Economic Results...

- While the state's obligation is the same over the entire lifetime of the commitments, the difference in the ROIs between the two scenarios is due to the timing and amount of the release of the initial investment. In one case, the entire investment is pulled from alternative expenditures, whereas in the other case, those expenditures continue until the funds are released into the economy.

- The reserve feature of QACF effectively makes the initial expenditure nonproductive. In the Reserve Scenario, the state is investing entire future expenditure for the exact same increase in business activity and capital investment that a staged investment would have achieved on a pay-as-you-go basis.

- The Reserve Scenario does this by removing those dollars from circulation within the economy, thus negating the multiplier effect of the spending. This can also be thought of as the opportunity cost for this approach.

Repercussions of a Reserve...

- The money is idle from the moment it hits the reserve until it is released back into the economy.
- Idle money has an opportunity cost.
  - From an economic perspective, lost economic activity.
  - From the state's perspective, forgone state expenditures on alternative investments—either through appropriation to other programs or through tax relief.
  - From an individual taxpayer's perspective, forgone savings or consumption that could have occurred otherwise; essentially, taxes are being paid before they are needed.
- For these reasons, the creation of a reserve is ultimately the result of a policy decision where the desired benefits are deemed to outweigh the costs described above.
- For example, the state's Budget Stabilization Fund fulfills an overarching purpose of self-insuring the state against emergencies and economic downturns.

Recommendations Based On FY 2016-2017 Reports...

- Continue to focus on cost-efficient programs, practices and infrastructure that benefit the flow of new money into the state. These programs, practices and infrastructure should not substitute for activity that would have otherwise occurred or that are market dependent, especially on Florida's population growth. Examples include activities that induce or facilitate tourism and exports.

- Modify the law to include an additional measure for **Net GDP per State Dollar**. While ROIs are an important metric for discretionary programs, policy makers have greater considerations than simply aligning to the state's tax code for certain public programs and investments in infrastructure.

- Change DEO's current practice of using Escrow for the Quick Action Closing Fund (QACF) to **Pay-As-You-Go**. As of December 31, 2016, the Escrow account had a balance of $117.5 million.