OFFICE OF ECONOMIC
& DEMOGRAPHIC RESEARCH

Economic Evaluation 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 – New Markets Development Program

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EXECUTIVE SUMMARY

Background and Purpose…

Legislation enacted in 2013 and revised in 2014 directs the Office of Economic and Demographic Research (EDR) and the Office of Program Policy Analysis and Government Accountability (OPPAGA) to analyze and evaluate 21 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. EDR also calculates the state's return on investment (ROI)[3] in addition to reporting the impact on the key economic variables.

In this report, the following programs are under review:

- The Capital Investment Tax Credit (CITC) established under s. 220.191;
- The Qualified Target Industry Tax Refund (QTI) established under s. 288.106;
- The Brownfield Redevelopment Bonus Refund (BFR) established under s. 288.107;
- High-Impact Business Performance Grants (HIPI) established under s. 288.108;
- The Quick Action Closing Fund (QACF) established under s. 288.1088;
- The Innovation Incentive Program (IIF) established under s. 288.1089;
- Enterprise Zone Program (EZ) incentives established under ss. 212.08(5) and (15); and
- The New Markets Development Program (NMDP) established under ss. 288.991-288.9922.

With the exception of the Florida New Markets Development Program, this is EDR's second evaluation of these programs.[4] This review period (or "window") covers Fiscal Years 2012-13, 2013-14 and 2014-15.

Overall Results and Conclusions...

As shown in the table below, all programs undergoing the second round of analyses had lower ROIs in this review than they had in the first round. A number of factors contribute to the lower ROIs, and they are explained in detail within each program review section. However, it is worth noting that 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.

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[1] Section 288.0001, F.S.
[2] Section 288.005(1), F.S.
[3] In this report, the term Return on Investment (ROI) is synonymous with economic benefit, and is used in lieu of the statutory term.
[4] The previous report and several presentations related to the findings of the first report can be found at EDR's website: http://edr.state.fl.us/Content/returnoninvestment/

As opposed to the last report, EDR did not provide multiple scenarios of the ROIs. The ROIs presented in this report result from just one scenario that uses all of the elements from the first review: proportionally allocating the economic activity attributable to the payments (by program) the state made or put in escrow during the review period. This is similar to the scenario EDR typically reports and feels is most indicative of the program's real return in state revenues.

2017 ROI Results by Program	2017 ROI	State Payment	2014 ROI[5]	State Payment
Capital Investment Tax Credit	0.43	$66.7m	2.3	$31.5m
Qualified Target Industry Tax Refund	4.4	$14.6m	6.4	$28.0m
Brownfield Bonus Redevelopment Tax Refund	0.30	$0.7m	1.1	$1.5m
High-Impact Sector Performance Grant	0.05	$2.5m	0.70	$1.0m
Quick Action Closing Fund	0.60	$78.7m	1.1	$32.2m
Innovation Incentive Program	0.10	$60.0m	0.20	$204.0m
New Markets Development Program	0.18	$64.3m	N/A	N/A
Enterprise Zone Program	N/A	$41.8m	-0.05	$115.2m

Enterprise Zone Program…

The Enterprise Zone program sunset on December 31, 2015. In 2014, EDR updated an in-depth 2010 property tax analysis of three enterprise zones and concluded the Enterprise Zone Program has a negative return to the state for a number of reasons:

- Previously taxable activity has been converted to non-taxable activity.
- 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.
- Many of the benefitting businesses are market or resource dependent and these business activities would have been undertaken somewhere in the state or local area absent the incentive.

The program was further analyzed in 2015 using property tax data on a statewide basis. The 2015 analysis found that the program primarily captures or shifts existing economic activity, rather than inducing new economic activity to the state.

For this report, EDR did not revisit the return on investment for this program since it effectively expired immediately after the review period concluded, and there is no reason to believe the prior conclusions have changed. However, even though the formal program has ceased to exist, there are certain instances in which credits can be taken after December 31, 2015.[6]

[5] The 2014 ROI report contained a range of results. The range included multiple scenarios that have been simplified to the results typically reported. The New Markets Development Program was not reviewed in 2014.

[6] The Legislature extended eligibility of Enterprise Zone incentives to businesses under contract with the Department of Economic Opportunity by July 1, 2015, for other state economic development programs. Eligibility for these businesses expire December 31, 2018. During the 2016 Session, the Legislature clarified that counties and municipalities may grant economic development property tax exemptions in areas that were previously designated as enterprise zones for projects that were preapproved before December 31, 2015.

ECONOMIC EVALUATION OF ECONOMIC DEVELOPMENT INCENTIVES

Overview…
EDR is tasked with evaluating the economic benefits of economic development incentive programs. 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."[7] 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 uses the Statewide Model to estimate the ROI for the economic development incentive programs. The Statewide Model is a dynamic computable general equilibrium (CGE) model that simulates Florida's economy and government finances.[8] Among other things, it captures the indirect and induced economic activity resulting from the direct program effects. This is accomplished by using large amounts of data specific to the Florida economy and fiscal structure. Mathematical equations[9] 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.[10] 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"[11] 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 grants. Generally, the combined annual direct effects ("shocks") took the form of:

- Removal of the incentive payments from the state budget, with corresponding awards to businesses as subsidies to production.
- Inclusion of capital investments or residual capital benefits related to the projects.
- Increased outputs based on retained and created jobs attributed to the projects.

After the direct effects are developed and estimated, the model is then used to estimate the additional—indirect and induced—economic effects generated by the programs, 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 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.

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[7] 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.
[8] The statewide economic model was developed using GEMPACK software with the assistance of the Centre of Policy Studies (CoPS) at Victoria University (Melbourne, Australia).
[9] These equations represent the behavioral responses to economic stimuli – to changes in economic variables.
[10] The business reactions simulate the supply-side responses to the new activity (e.g., changes in investment and labor supply).
[11] 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 introduced to remove the impact of the incentives on the economy.

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 uses 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 domestic product, all of which are included in the model results.

Explanation of Return on Investment...
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:

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

Since EDR's Statewide Model 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 investment.
- **Equal To One (=1.0)**…the program breaks even; the return to the state in additional revenues equals the total cost of the investment.
- **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 of the investment.
- **Less Than Zero (-, <0)**…the program does not recover any portion of the investment cost, and state revenues are less than they would have been in the absence of the program, typically 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 means that $2.50 in tax revenues is received back from each dollar spent by the state.

The basic formula for ROI 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.

Program Findings...
In the pages that follow, the analysis for each program includes diagnostic tables describing the composition and statistics of the projects under review. Key terms used in the tables are described below:

State Payments in the Window $(M) – Represents the amount of state payments made to the program in each fiscal year.

Total Net State Revenues $(M) – Represents the amount of new state revenue generated by the program in each fiscal year.

Personal Income (Nominal $(M)) – Reflects 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 2010-11 $(M)) – Reflects total after-tax income received by persons; it is the income available to persons for spending or saving.

Real Gross Domestic Product (Fixed 2010-11 $(M)) – Measures 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 2010-11 $(M)) – Reflects 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 2010-11 $(M)) – Consists of sales, or receipts, and other operating income, plus commodity taxes and changes in inventories.

Total Employment (Jobs) – Provides 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).

Data and Methodology...

With the exception of projects receiving Capital Investment Tax Credits, New Markets Tax Credits or Enterprise Zone tax incentives, the Florida Department of Economic Opportunity (DEO) is the primary source of program project information. For those three programs, internal files from the Department of Revenue (DOR) provide an additional source of information.

For the New Markets Development Program (NMDP), EDR relied on data from three sources: DEO, DOR and Community Development Entities (CDEs), who have the primary role in the implementing the NMDP. In this regard, DEO provided limited project information and related state expenditures, and DOR provided tax credit data. To supplement the DEO and DOR data, EDR surveyed the CDEs participating in the Florida NMDP to obtain information regarding the actual number of new and retained jobs and capital investments, as well as total project costs.

As with previous evaluations, EDR's ROI calculation is based on the net economic impact rather than the gross economic activity generated by or attributed to program projects. The impact is due to new economic activity induced by a state subsidy after taking account of what would have occurred in the absence of this particular investment. EDR employs a number of approaches to isolate the new economic activity, including an assessment of the "but-for" assertion and culling[12] Florida market or resource dependent projects. The resultant net economic benefit is then proportionately attributed to all contributors or contributing public programs. Culling market or resource dependent projects and proportionally attributing the economic benefit is one strategy to derive a credible estimate of the program's real return to the state.

Excluding projects arising from the New Markets Development Program and Enterprise Zones, DEO provided data for 284 unique projects associated with the other programs, 89 of which were bundled (31.3 percent)[13]. From this data, EDR identified 237 projects that had received payment from at least one incentive program during the review period. Of the 237 unique projects receiving payments, 18 were bundled (7.6 percent). The remaining 219 projects received payments from only one program. All totaled, these projects received $247 million over the review period.

For the purpose of calculating a true ROI for each program, the distinction between the bundled and unbundled projects is important. The state incentive payments for a bundled project are identified separately 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 investments made in the project, regardless of when the state payments were made or from which program. 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 on 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. Funds from the other programs that have not been received during the period are only used to allocate the benefits.

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[12] Culling refers to removing the economic benefit of a particular project if it is determined to rely on Florida's markets or resources and/or would have existed in Florida in the absence of the incentive. See Appendix One for further details.

[13] While DEO did provide New Markets project data, DEO administers the New Markets program differently, so these projects were not included in the aggregate totals discussed in this paragraph.

Key Assumptions…

The following key assumptions are used in the Statewide Model to determine the economic benefits of the economic development incentive programs. 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.

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 CDEs related to projects 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.

CAPITAL INVESTMENT TAX CREDIT

Project Summary Statistics

Total Number of CITC Projects	9	100.0%
Industry Composition		
Manufacturing	3	33.3%
Information	1	11.1%
Finance and Insurance	2	22.2%
Professional, Scientific, and Technical Services	3	33.3%
Number of Bundled CITC Projects	8	88.9%
Bundled Composition		
QTI, CITC	4	44.4%
HIPI, CITC	2	22.2%
QTI, CITC, QACF	2	22.2%
Industry Composition		
Manufacturing	3	33.3%
Finance and Insurance	2	22.2%
Professional, Scientific, and Technical Services	3	33.3%
Number of Single CITC Projects	1	11.1%
Industry Composition		
Information	1	11.1%

All Capital Investment Tax Credit Projects Used in Analysis

	2012-13	2013-14	2014-15	Total
Anticipated CIT Credits in Window*	$ 114,513,600	$ 114,513,600	$ 115,876,007	**$ 344,903,207**
Actual CIT Credits used in analysis	$ 25,611,669	$ 16,418,691	$ 24,677,988	**$ 66,708,348**
Confirmed Capital Investment	$ 22,481,279	$ 4,641,414	$ 43,105,962	**$ 70,228,655**
Average Annual Wage of Projects	$ 77,718	$ 91,177	$ 94,547	
Statewide Average Annual Wage	$ 44,862	$ 45,679	$ 46,956	
Percentage of Statewide Average Annual Wage	173.2%	199.6%	201.3%	
Total Net State Revenues	$ 8.7	$ 9.8	$ 10.5	**$ 28.9**
Return-on-Investment by year	0.34	0.59	0.43	
Return-on-Investment for the 3 year period				**0.43**

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

Statewide Economic Model Impact of the Capital Investment Tax Credit Program

	Units	2012-13	2013-14	2014-15	Total		Average per Year
Personal Income	Nominal $ (M)	310.5	393.8	452.0	**1,156.3**		**385.4**
Real Disposable Personal Income	Fixed 2010-11 $ (M)	241.4	305.6	349.9	**896.9**		**299.0**
Real Gross Domestic Product	Fixed 2010-11 $ (M)	383.7	437.5	457.6	**1,278.8**		**426.3**
Consumption by Households and Government	Fixed 2010-11 $ (M)	215.1	263.6	294.4	**773.1**		**257.7**
Real Output	Fixed 2010-11 $ (M)	576.0	641.6	665.7	**1,883.3**		**627.8**
	Units	**2012-13**	**2013-14**	**2014-15**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	1,357	974	719	***719***	***1,357***	**1,016**
Population	Persons	106	970	1,802	***106***	***1,802***	**959**

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.[14] 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)

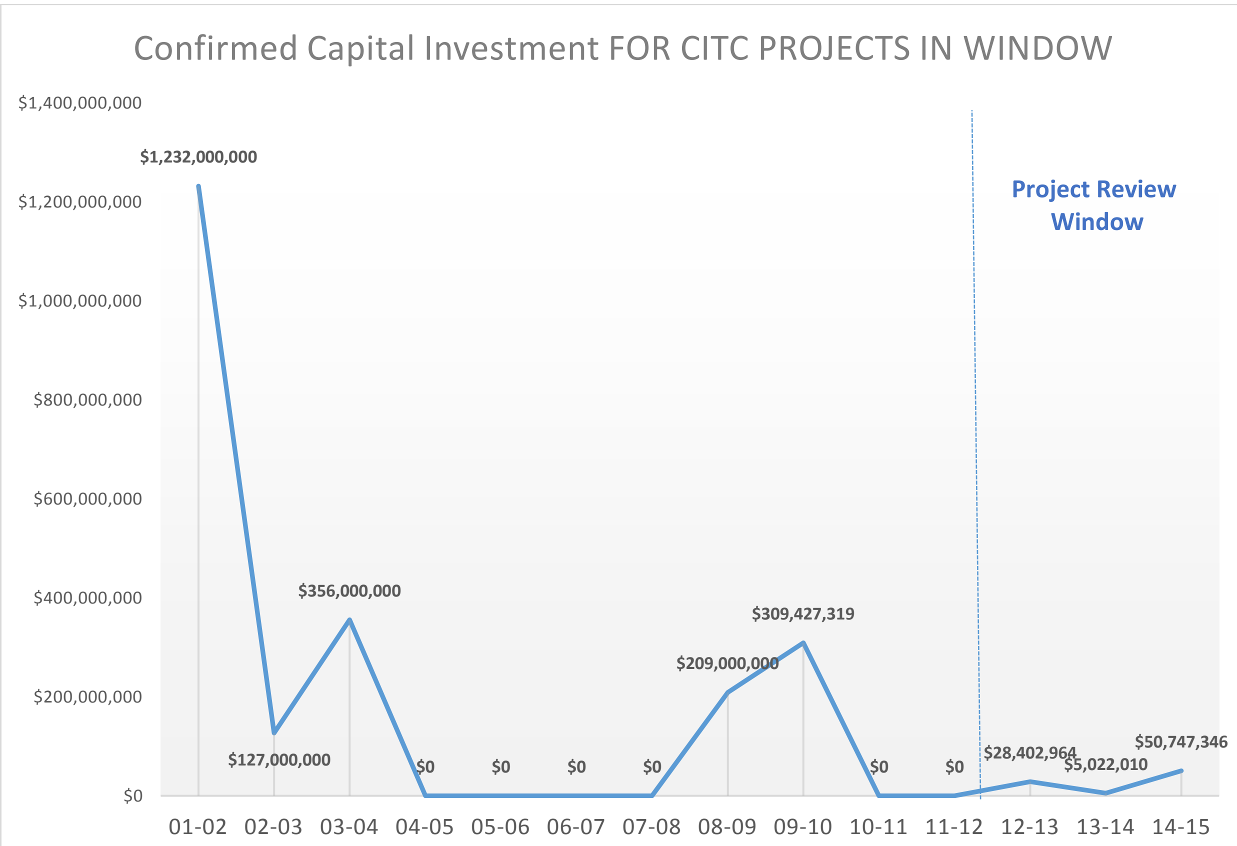
Analysis and Findings…
The benefits arising out of this program flow from two sources: the activity generated by the capital investment undertaken by the businesses, and the activity associated with the ongoing operations of the firm, but during and after the completion of the capital investment. The ability to measure these benefits is partially limited by the structure of the program. The Department of Economic Opportunity (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 nine projects were evaluated for the CITC program. Of these nine projects, three were manufacturing businesses, one was in information services (NAICS 51), two were in finance and insurance (NAICS 52), and three were classified as professional, scientific, and

[14] 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, http://www.flsenate.gov/PublishedContent/Session/2012/InterimReports/2012-204ft.pdf.

technical services (NAICS 54). Additionally, eight of the nine projects were bundled with other incentive awards. Six of these received QTI incentives, two received HIPI incentives, and two of the six receiving QTI incentives also received an additional QACF incentive.

There was a total of $84.2 million in confirmed capital investment over the three-year period of analysis.[15] Businesses claimed a total of $66.7 million in CITC credits.[16] These projects are credited with directly creating 542 project jobs within the review period.[17] For those businesses claiming credits, there was additional capital investment that took place prior to the period of analysis (see chart below).[18]



Combined Projects…
For the nine projects, there was just over $70.2 million in confirmed capital investment attributable to the CITC incentives and a total of $66.7 million in CITC credits taken during the three-year period of analysis. There were an estimated 542 project jobs created over the period by the nine projects. The average annual wage for the jobs created was $87,956, which was about 192 percent of the statewide

[15] Only two of the nine projects had investments within the review period.
[16] One of the nine projects was eligible to claim credits during the review period, but had not claimed credits according to Florida DOR records.
[17] While there were a total of 542 jobs created within the window, the projects averaged 3,704 jobs per year. In the last year prior to the window, FY 2011-12, the CITC's share of the jobs accounted for by the nine projects in the analysis totaled 3,237.
[18] 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 $84.2 million in spending took place, only $70.2 million is assumed to have been induced by the CITC program.

average. The economic activity associated with the capital investment and jobs generated a net increase in state revenues of $28.9 million over the entire period. This results in an ROI for these projects of 0.43.

In addition to the net new revenues to the state, Florida's economy also benefited. These projects generated an average of $299 million a year in inflation-adjusted disposable personal income and $426 million a year in real gross state product. On average there were 1,016 more jobs economy-wide each year. It should be pointed out that while there were an average of 3,639 jobs in the review period attributable to the nine CITC projects, the share of the total incentives available to each project in the window (about 15 percent of the total potential credits available for each project) corresponds to an average jobs number of 532 per year—less than the net economy-wide job increase of 1,016. In other words, the impact of the incentives is sufficient to offset any job losses in state government due to the cost of the tax credits and redirected state spending. There is actually a net gain of jobs in the economy—each job associated with these nine projects is estimated to create an additional 0.91 job.

There are a number of factors that could affect the ROI for these projects, and they can move the ROI in either direction. First, since the CITC projects were bundled with other incentive programs, it is assumed that some of the capital investment is attributable to the other incentives. While $84.2 million in capital investment took place, approximately $14.0 million is allocated to the other incentive programs with which the CITC projects were bundled. If all of the capital investment were 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 $46 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 from 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 were attributed to the CITC program, the ROI would have been higher; however, as in the investment case, there is no guarantee that the same level of activity would have taken place without the additional incentives.

A factor that acts to substantially 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 $344.9 million in credits that could have been taken. The state clearly benefits from the $278.2 million in potential credits not taken. Had these additional available credits been fully taken, it would have reduced the ROI to 0.11. This was also the case in 2014, but to a lesser degree. The maximum credits that could have been take at that time totaled $204.0 million—of which, $172.5 million were unused.

Overall, the 2017 results differ markedly from those reported in 2014.[19] At that time, the five projects in the CITC program generated an ROI of 2.3, based on the actual credits taken. The current analysis

[19] See *http://edr.state.fl.us/Content/returnoninvestment/EDR_ROI.pdf* for the prior analysis and results on the CITC program.

contains the same five projects, plus an additional four. The following points help to explain why the results are different:

- The credits originally reported by the Florida Department of Revenue (DOR) were based on final corporate tax returns. This data has been supplemented in the current analysis with audit findings. The CITC credits for the original projects are now $10.44 million higher. This alone would have reduced the original ROI to 1.5. Allowing for the negative effects of further reducing the state budget by the increased credits would have reduced the ROI even further.
- One project in the original study was misclassified as a "single incentive" project when it was, in fact, bundled with a HIPI incentive. Allocating a portion of the project's benefits to the HIPI incentive would have slightly reduced the original ROI.
- New projects in the current analysis made greater use of the credits available to them. They had sufficient corporate tax liability to claim 19.3 percent of their available credits ($66.7 million out of $344.9 million). The original five projects claimed just 15.4 percent of their available credits ($31.5 million out of $204.0 million).[20]
- There was a lower level of capital investment in the window for the current analysis. In the 2014 analysis, there was $194.6 million in capital investment compared to just $70.2 million in the current analysis.
- There was also a lower level of capital investment in the seven years prior to the review period in the current analysis than in the 2014 analysis. In the 2014 analysis, $566 million was reported compared to $518 million in the current review. This $566 million reported in 2014 has since been revised to $692 million.

Conclusion…
The structure of the CITC program makes it unique among the 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.[21] Second, only a percentage of the liability can be offset (as determined by the tier the business falls under).

Since CITC's inception, 43 projects have applied, been approved, and are active CITC projects. Of the 43, 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 ten businesses have taken the credit since its inception. Of the over $1.12 billion in potential credits[22] that could have been taken by qualifying businesses to date, only $205,283,609 has been taken, or 18.2 percent of the total potential.

[20] One of the original five actually claimed no credits in the current window, which acted to boost the current ROI estimate.
[21] What qualifies as "liability arising from the new or expanding facility" is subject to an agreement worked out between the qualifying business and the Florida Department of Revenue.
[22] The $1.12 billion reflects the projects authorized to take credits since the inception of the program.

QUALIFIED TARGET INDUSTRY TAX REFUND

Project Summary Statistics

Total Number of QTI Projects	**145**	**100%**
Industry Composition		
Food and beverage and tobacco products manufacturing	4	2.8%
Textile mills and textile product mills	1	0.7%
Wood products manufacturing	2	1.4%
Chemical products manufacturing	6	4.1%
Plastics and rubber products manufacturing	5	3.4%
Nonmetallic mineral products manufacturing	1	0.7%
Primary metals manufacturing	1	0.7%
Fabricated metal products	5	3.4%
Machinery manufacturing	5	3.4%
Computer and electronic products manufacturing	4	2.8%
Electrical equipment, appliance, and components manufacturing	7	4.8%
Motor vehicles, bodies and trailers, and parts manufacturing	2	1.4%
Other transportation equipment manufacturing	7	4.8%
Miscellaneous manufacturing	6	4.1%
Wholesale trade	8	5.5%
Other transportation and support activities	1	0.7%
Publishing industries, except Internet (includes software)	2	1.4%
Broadcasting and telecommunications	1	0.7%
Data processing, internet publishing, and other information services	2	1.4%
Federal Reserve banks, credit intermediation, and related services	9	6.2%
Securities, commodity contracts, and investments	3	2.1%
Insurance carriers and related activities	3	2.1%
Miscellaneous professional, scientific, and technical services	47	32.4%
Computer systems design and related services	7	4.8%
Management of companies and enterprises	1	0.7%
Administrative and support services	4	2.8%
Educational services	1	0.7%

Bundled Project Summary Statistics

Number of Bundled QTI Projects	**36**	**24.8%**
Bundled Composition		
QTI/CITC	3	8.3%
QTI/QDC	1	2.8%
QTI/QACF	29	80.6%
QTI/CITC/QACF	3	8.3%
Industry Composition		
Food and beverage and tobacco products manufacturing	2	5.6%
Chemical products manufacturing	1	2.8%
Primary metals manufacturing	1	2.8%
Fabricated metal products	1	2.8%
Machinery manufacturing	1	2.8%
Electrical equipment, appliance, and components manufacturing	1	2.8%
Motor vehicles, bodies and trailers, and parts manufacturing	1	2.8%
Other transportation equipment manufacturing	4	11.1%
Miscellaneous manufacturing	1	2.8%
Wholesale trade	1	2.8%
Federal Reserve banks, credit intermediation, and related services	2	5.6%
Securities, commodity contracts, and investments	1	2.8%
Miscellaneous professional, scientific, and technical services	18	50.0%
Administrative and support services	1	2.8%

		12-13	13-14	14-15	Total
State Payments in the Window	Nominal $ (M)	3.8	7.9	3.0	**14.6**
Total Net State Revenues	Nominal $ (M)	21.5	23.7	18.7	**63.9**
Return-on-Investment by Year		5.7	3.0	6.3	
Return-on-Investment for the 3 year period					**4.4**

		12-13	13-14	14-15	Total		Average per Year
Personal Income	Nominal $ (M)	707.5	857.1	739.6	**2,304.3**		**768.1**
Real Disposable Personal Income	Fixed 2009 $ (M)	504.7	607.2	521.1	**1,633.0**		**544.3**
Real Gross Domestic Product	Fixed 2009 $ (M)	809.7	862.9	647.3	**2,319.9**		**773.3**
Consumption by Households and Government	Fixed 2009 $ (M)	408.5	485.6	412.3	**1,306.3**		**435.4**
Real Output	Fixed 2009 $ (M)	1,204.0	1,273.1	950.4	**3,427.6**		**1,142.5**

		12-13	13-14	14-15	Minimum	Maximum	Average per Year
Total Employment	Jobs	3,138	2,138	699	699	3,138	**1,991.7**
Population	Persons	16	1,840	3,536	16	3,536	**1,797.3**

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. Unless waived by the Department of Economic Opportunity (DEO), the city or county government in which the project is located must provide 20 percent of the award.

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.

Analysis and Findings…

During the review period, 145 projects received a payment from the Qualified Target Industry Tax Refund Program. Two projects were culled from the analysis for being Florida market or resource dependent in this review. When that occurs (as it did in 2014), the cost to the state continues, but the economic benefits are removed. This includes the associated jobs, wages, and output.

Of the 145 projects, 36 projects also received payments from other non-QTI incentive programs. This feature is referred to as bundling and has to be treated uniquely in the model. In this regard, the jobs, wages and investments for these 36 projects were allocated among all of contributing programs, based on the share of QTI incentive payments to all incentive program payments received during the review period.

The 145 projects received state payments totaling $14,615,800 under QTI during the review period. There was an estimated 7,974 new project jobs created over the period with an average annual wage of

$61,803 for the jobs created. The economic activity associated with the capital investment and jobs generated a net increase in state revenues of $63.9 million.

The return on investment for these projects is 4.4. The ROI during this period of review is lower than the assessment of the QTI program in 2014 (typically reported as 6.4). This is due in part to the projects in this evaluation being spread across more industries, 27 industries compared to 11, with a greater concentration in industries with lower multipliers compared to the previous evaluation (i.e. Professional, Scientific and Technological Services compared to Manufacturing). In addition, more projects in this review period were bundled with other programs (36 compared to 20 in the previous evaluation), which meant more of the output was allocated and shared.

While the ROI is lower than the 6.4 from the previous evaluation, the ROI is still high performing. This can be ascribed to several reasons—most of which relate to the overall program design explained in the Conclusion below. However, there are two additional reasons that relate to the increased use of bundling. In this regard, some of the bundled projects are combined with incentive programs that have capital investment requirements. The allocated capital investment associated with these projects is added to the total output for the QTI projects. Further, bundled projects tend to have higher wages, since most of the other incentive programs (80 percent were bundled with QACF) have a greater wage requirement than the QTI program. This also contributes to higher output for the bundled QTI projects.

Conclusion…

The return on investment for the QTI program remains 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. Enterprise Florida, Inc., and the Department of Economic Opportunity designate these industries, called Target Industries. Generally, the targeted industries more strongly influence the economy than the class of all industries because they tend to have the highest multipliers. This remains true even though the businesses receiving awards from the QTI program have moved to the lower edge of the range since the last review by becoming more concentrated in professional, scientific, and technical services industry. However, the new concentration does impact the model results. The chart below illustrates the difference in output from the same number of jobs in two different industries, specifically manufacturing and professional, scientific, and technical services.

Industry	Number of Jobs	Average Wage of Jobs	Ratio of Compensation-to-Wages	Output per Dollar of Employee Compensation	Estimated Total Output
Manufacturing	10	$57,126	1.36	4.42	$3,434,279
Professional, Scientific, & Technical Services	10	$70,915	1.17	2.35	$1,943,157

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 $46,000 during calendar years 2013 to 2015. 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 most years, the projects under review had wages higher than 135 percent of the statewide average annual wage; however, this was down from the 150 percent seen in the original review. Higher than average wages leads to higher output being associated with the projects, and that, in turn, generates more revenue for the State of Florida.

The original ROI in 2014 strongly benefited from producing more employees than contracted for during the window. That was not the case in the current analysis. In total, the number of jobs confirmed was slightly less than the number of jobs committed. This placed downward pressure on the ROI relative to 2014.

Working in the opposite direction, 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	**12**	**100.0%**
Industry Composition		
Food and Drink	3	25.0%
Administrative Support	2	16.7%
Retail	2	16.7%
Farm	1	8.3%
Primary Metal Manufacturing	1	8.3%
Fabricated Metal Manufacturing	1	8.3%
Wholesale	1	8.3%
Accommodations	1	8.3%
Number of Brownfield Projects in Culled Analysis	**5**	**41.7%**
Industry Composition		
Administrative Support	2	16.7%
Primary Metal Manufacturing	1	8.3%
Fabricated Metal Manufacturing	1	8.3%
Wholesale	1	8.3%

Brownfield Projects - Culled		**12-13**	**13-14**	**14-15**	**Total**
State Payments in the Window	Nominal $ (M)	0.0	0.4	0.2	**0.7**
Total Net State Revenues	Nominal $ (M)	0.2	0.0	0.0	**0.2**
Return-on-Investment by Year		6.6	-0.1	-0.1	
Return-on-Investment for the 2 year period					**0.3**

		12-13	**13-14**	**14-15**	**Total**		**Average per Year**
Personal Income	Nominal $ (M)	3.9	0.4	0.5	**4.8**		**1.6**
Real Disposable Personal Income	Fixed FY 2010-11 $ (M)	3.2	0.5	0.5	**4.2**		**1.4**
Real Gross Domestic Product	Fixed FY 2010-11 $ (M)	4.9	(0.1)	0.1	**4.9**		**1.6**
Consumption by Households and Government	Fixed FY 2010-11 $ (M)	2.9	0.3	0.3	**3.4**		**1.1**
Real Output	Fixed FY 2010-11 $ (M)	6.5	(0.4)	(0.1)	**6.0**		**2.0**

		12-13	**13-14**	**14-15**	**Minimum**	**Maximum**	**Average per Year**
Total Employment	Jobs	16	(10)	(8)	(10)	16	**(0.7)**
Population	Persons	0	0	0	0	0	**0.0**

Background…

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 of environmental contamination or blight.[23] These incentives are grant programs, subject to annual appropriations. The grant award is 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[24] – QTI with Brownfield Bonus – provides a bonus grant of $2,500 per job created for approved QTI projects located in Brownfield areas. Because it is an added amount to the QTI award, projects receiving this bonus incentive are subject to the same qualification and performance criteria as QTI projects. Since it is a feature contributing to the QTI award, the Brownfield Bonus is included in the measure of QTI projects and not analyzed in the Brownfield ROI review.

Enacted in 2000, a separate stand-alone incentive[25] 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 eligible for bonus refunds, and that provides benefits to its employees."[26]

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

Legislation passed in 2013 changed the Brownfield Redevelopment Bonus Tax Refund Program (BFRD) requirements. Projects will only qualify if the project is either on a parcel designated as a Brownfield site or on any real property parcel abutting the Brownfield site within a Brownfield area. [27] Prior to 2013, projects qualified if the development occurred anywhere within a Brownfield area.

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."[28]

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

[23] Section 17, Ch. 2013-29 and s. 18 Ch. 2013-42, Laws of Florida
[24] Section 288.107(2)(a), F.S.
[25] Section 288.107(2)(b), F.S.
[26] Section 288.107(1)(d)2., F.S.
[27] Brownfield site is defined as any property where the expansion, redevelopment or reuse of which may be complicated by actual or perceived environmental contamination. The Florida Department of Environmental Protection designates these sites. In contrast, a Brownfield area includes any property designated by resolution of a local government, as well as the areas contiguous to 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.
[28] Section 376.78(1), F.S.

2013 tightened the permissible areas of development for Brownfield-project designation and increased the minimum requirement for participation in the program.

Results…

The analysis shows a return on investment of 0.3 for the Brownfield Redevelopment Bonus Tax Refund Program (BFRD). The ROI was calculated based on a net increase of $0.2 million in tax revenue from the Brownfield projects during the window. In addition, real Gross Domestic Product increased by $4.9 million and Personal Income by $4.8 million.

In the review period, twelve projects received state incentives related to BFRD projects. There was an annual average of 940 jobs attributed to these projects with an average annual wage of $33,564. Capital investment was $2.6 million in FY 2012-13, $12.0 million in FY 2013-14 and $3.7 million in FY 2014-15.

Of the twelve projects, seven projects were culled from the analysis, as they did not meet the "but-for" assertion. The culled projects included Florida market or resource dependent industries such as food and drink (three), retail trade (two) accommodations (one) and farming (one). The output and capital investments from these projects were removed from the model; however, the state's payments remained.

The remaining projects came from the following industry sectors: administrative support (two), manufacturing (two), and wholesale trade (one). The projects averaged 499 jobs annually with an average wage of $40,066.

Capital investment for the remaining projects was $0.6 million in FY 2012-13, and $3.7 million in FY 2014-15. However, the program experienced additional capital investment in the years prior to the review period. A portion of the remaining benefits from these investments was calculated and included in the program's ROI.

The ROI for Brownfield projects declined from the typically reported 1.1 from the original analysis in 2014 to 0.3 in the current review. This change is associated with several factors:

- The original analysis included three projects after culling, possibly making the results unstable. After culling, the number of projects in the current analysis is only slightly higher (five). It is hard to know which result is more reflective of the program's true ROI.
- The program was redesigned subsequent to the original analysis.
- The capital investment of the previous analysis totaled $13.8 million in the original culled analysis compared to $4.3 million for the current analysis. This $13.8 million reported in 2014 has since been revised to $15.1 million.
- Three of the projects did not have a full three-years of reporting. Two began within the review period and the other project's reporting requirements expired within the review period. This limits the economic output for these projects.

Conclusion…

Though the ROI for the Brownfield program is low, the limited number of projects, coupled with the fact that three projects were in the data for periods less than the full three years, is problematic. It is unclear at this point if the ROI would be materially different if the program involved a larger number of projects or a longer period of time. The purpose of the program is to encourage cleanup of areas with contamination or blight. Compared to other economic incentive programs, the capital investment requirement is low, and there is no minimum wage requirement.

HIGH-IMPACT SECTOR PERFORMANCE GRANT

Project Summary Statistics

Total Number of HIPI Projects	**1**	**100.00%**
Industry Composition		
Television Broadcasting	1	100.00%

Bundled Project Summary Statistics

Number of Bundled HIPI Projects	**1**	**100.00%**
Bundled Composition		
HIPI, CITC	1	100.00%
Industry Composition		
Television Broadcasting	1	100.00%

		12-13	13-14	14-15	Total
State Payments in the Window	Nominal $ (M)	0.0	0.0	2.5	**2.5**
Total Net State Revenues	Nominal $ (M)	0.1	0.0	0.0	**0.1**
Return on Investment by Year		0.0	0.0	0.0	
Return on Investment for the 3 year period					**0.1**

		12-13	13-14	14-15	Total		Average per Year
Personal Income	Nominal $ (M)	1.8	0.9	(0.3)	**2.4**		**0.8**
Real Disposable Personal Income	Fixed 2010-11 $ (M)	1.5	0.9	(0.2)	**2.2**		**0.7**
Real Gross Domestic Product	Fixed 2010-11 $ (M)	2.5	1.2	(1.6)	**2.1**		**0.7**
Consumption by Households and Government	Fixed 2010-11 $ (M)	1.2	0.8	(0.4)	**1.6**		**0.5**
Real Output	Fixed 2010-11 $ (M)	3.6	1.7	(0.5)	**4.8**		**1.6**

		12-13	13-14	14-15	Minimum	Maximum	Average per Year
Total Employment	Jobs	10	0	(5)	(5)	10	**1.7**
Population	Persons	0	0	4	0	4	**1.3**

Program Description…

Enacted in 1997, the High-Impact Sector Performance Grant[29] (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 the Department of Economic Opportunity (DEO). This performance-based grant is paid in two equal installments: upon commencement of operations and upon commencement of full operations (project is fully constructed and all jobs are in place).

[29] Section 288.108, F.S.

Analysis and Findings…
During the review period, one project received a HIPI payment totaling $2,500,000 for commencement of operations. The project is in the Television Broadcasting industry and also received a Capital Investment Tax Credit (CITC) award.

The return on investment for the HIPI Program is 0.05, which rounds to 0.1. This means that the additional state revenues do not fully pay for the cost of the incentive. In the original analysis conducted in 2014, the reported ROI was 0.7 for two projects. The low number of projects in both reviews makes the results unstable. It is hard to know which result is more reflective of the program's true ROI.

The low return on investment for the program is mainly attributable to the bundled nature of the one qualifying project. It produced 316 jobs, with an average confirmed wage of $87,000. The jobs and wages produce an estimated output of $121 million, and the project's confirmed capital investment of was $138 million. However, the project is bundled with CITC. The HIPI portion of the project accounts for only 1.79 percent of the total incentive package, and as a result, only 1.79 percent of the total output and capital investment.

Another factor contributing to HIPI's low ROI is the project's industry. Unlike other industries such as electronic computer manufacturing, the television broadcasting industry has relatively low multiplier effects. As indicated below, a project operating in a manufacturing industry that creates the same number of jobs is estimated to have much higher output than a broadcasting project.

Industry	Number of Jobs	Average Wage of Jobs (FY2012-13)	Ratio of Compensation-to-Wages (FY2012-13)	Output per Dollar of Employee Compensation (FY2012-13)	Estimated Total Output
Electronic Computer Manufacturing	50	$80,709	1.20	6.39	$618,597
Broadcasting (except Internet)	50	$87,000	1.20	3.69	$337,787

Conclusion…
Though the ROI for the HIPI Program is low, it is important to realize that there was only one project in the review period. It is unclear at this point if the ROI would be materially different if the program involved a larger number of projects.

QUICK ACTION CLOSING FUND

Project Summary Statistics

Total Number of QAC Projects	**84**	**100.00%**
Single Projects	**22**	**26.19%**
Bundled Projects	**62**	**73.81%**
QACF, QTI	56	90.32%
QACF, CITC	2	3.23%
QACF, QTI, CITC	3	4.84%
QACF, BFR, CITC	1	1.61%

Industry Composition		
Manufacturing	28	33.33%
Wholesale Trade	2	2.38%
Information	3	3.57%
Finance and Insurance	10	11.90%
Professional, Scientific, and Technical Services	39	46.43%
Educational Services	1	1.19%
Health Care and Social Assistance	1	1.19%

		12-13	13-14	14-15	Total
State Payments in the Window	Nominal $ (M)	-1.7	71.7	8.7	**78.7**
Total Net State Revenues	Nominal $ (M)	5.5	14.1	25.9	**45.5**
Return on Investment by Year		-3.3	0.2	3.0	
Return on Investment for the 3 year period					**0.6**

		12-13	13-14	14-15	Total		Average per Year
Personal Income	Nominal $ (M)	217.3	525.9	997.9	**1,741.0**		**580.3**
Real Disposable Personal Income	Fixed 2010-11 $ (M)	167.8	403.7	766.5	**1,338.0**		**446.0**
Real Gross Domestic Product	Fixed 2010-11 $ (M)	257.7	609.0	1,132.3	**1,999.0**		**666.3**
Consumption by Households and Government	Fixed 2010-11 $ (M)	145.3	341.2	638.0	**1,124.4**		**374.8**
Real Output	Fixed 2010-11 $ (M)	357.6	928.7	1,682.0	**2,968.3**		**989.4**

		12-13	13-14	14-15	Minimum	Maximum	Average per Year
Total Employment	Jobs	1,535	2,455	3,299	1,535	3,299	**2,429.7**
Population	Persons	0	704	2,082	0	2,082	**928.7**

Program Description…

Enacted in 1999, the Quick Action Closing Fund[30] (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. The Department of Economic Opportunity (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 and met other contractual obligations.[31]

Analysis and Findings…

During the review period, eighty-four projects received at least one payment from the Quick Action Closing Fund program, a figure much higher than the twenty-eight projects found in 2014. Sixty-two of the total projects (74 percent) were bundled with at least one other economic development incentive, of which ninety percent were also recipients of the Qualified Target Industry Tax Refund Program (QTI).

During the review period, net QACF payments totaled $78.7 million. This includes payments returned to the state of $26.2 million that reduced the program's cost.[32] Confirmed capital investment attributable to the QACF projects totaled $99.0 million, with $96.3 million occurring within the window and the remaining $2.7 million occurring in the two years preceding the review period.

The QACF program is 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 $46,000 during fiscal years 2012-13 to 2014-15. In most years, the projects under review had wages higher than 140 percent of the statewide average annual wage. Higher than average wages leads to a higher level of output for the associated projects, which, in turn, generates more revenue for the State of Florida.

The projects used in this analysis had an annual average of 6,444 jobs. This represents just 43 percent of the committed jobs for this period.[33] Of the 6,444 jobs directly associated with the projects, only 3,492 jobs are allocated to the awarded QACF incentives—the remainder are attributable to the other incentive programs with which the QACF awards are bundled. Of the 3,492 jobs associated with the

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[30] Section 288.1088, F.S. It is important to note that of all state incentive programs, only QACF, the 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.

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

[32] These payments effectively reduce the cost of the program to the state by recouping funds from projects that failed to meet benchmarks set out in their contracts.

[33] By the last year in the review period, confirmed jobs reached 9,663, or 64 percent of committed jobs.

QACF incentives, just 1,909 jobs are associated with the payments occurring within the window. These 1,909 jobs generated an estimated $380 million in wages and salaries and an estimated $1.71 billion in output over the three-year review period.

The economic activity associated with the capital investment and jobs generated a net increase in state revenues of $45.5 million. This results in a return on investment for the QACF programs is 0.6. Therefore, the additional state revenues no longer cover the cost of the incentives. In the original 2014 analysis, the ROI most typically reported was 1.1.

While the net new state revenues only covered a part of the program's cost, Florida's economy benefited. These projects generated an average of $446 million a year in inflation-adjusted disposable personal income and slightly over $666 million a year in real gross domestic product. On average, there were nearly 2,430 more jobs in the economy each year as a result of the awarded incentives. This means that the 1,909 average jobs directly associated with the analyzed projects generated an additional 521 jobs economy-wide.

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 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.

During the analysis window, $9.1 million in payments was given directly to businesses by DEO without going into escrow. Approximately 50 projects had funds placed in escrow totaling $95.8 million compared to just $10.0 million placed in escrow in the 2014 analysis. This brings the gross cost to the state during the review period to $104.9 million. However, during the review period, the state received $26.2 million back related to either underperforming, inactive or terminated projects. This reduces the state's total cost from $104.9 million to $78.7 million.

Of the $95.8 million described above, $84.1 million remained in escrow at the end of the review period. This means that $11.7 million was released into the economy. Combined with the $9.1 million in payments given directly to businesses and $8.8 million released from escrow deposits made in prior periods, the total impact on the economy is $29.6 million.

For modeling purposes, escrowed funds decrease the return on investment for the QACF program because the state has lost the ability to spend the escrowed dollars, yet the benefit (e.g., job creation and increased output) of this spending is not realized until some point in the future. Effectively, the use of escrow temporarily removes those dollars from circulation in the economy, thus negating the multiplier effect of spending. The escrowed dollars are idle from the moment they hit the reserve until they are released back into the economy.

Another factor negatively affecting the program's ROI is the size of the Closing Fund award in relation to the total amount awarded from other economic development incentive programs. On average, the QACF award is approximately 50 percent of the total economic development incentives awarded to a business. As a result, only 50 percent of the jobs and capital investment created by the projects in this analysis are attributable to QACF.

Conclusion…

Several factors produced the low return on investment for the Quick Action Closing Fund Program relative to the 2014 analysis. Most importantly, DEO's escrowing practice has permanently altered the expected returns to the state.

INNOVATION INCENTIVE PROGRAM

Project Summary Statistics

Total Number of IIF Projects	**5**	**100.00%**
Industry Composition		
Research & Development	5	100.00%

Bundled Project Summary Statistics

Number of Bundled IIF Projects	**1**	**20.00%**
Bundled Composition		
IIF, QACF	1	100.00%
Industry Composition		
Research & Development	1	100.00%

		12-13	13-14	14-15	Total
State Payments in the Window	Nominal $ (M)	24.1	20.1	15.8	**60.0**
Total Net State Revenues	Nominal $ (M)	1.9	1.8	2.0	**5.7**
Return on Investment by Year		0.1	0.1	0.1	
Return on Investment for the 3 year period					**0.1**

		12-13	13-14	14-15	Total		Average per Year
Personal Income	Nominal $ (M)	64.4	67.8	72.1	**204.3**		**68.1**
Real Disposable Personal Income	Fixed 2010-11 $ (M)	49.7	51.8	54.5	**156.1**		**52.0**
Real Gross Domestic Product	Fixed 2010-11 $ (M)	56.5	55.5	55.9	**167.9**		**56.0**
Consumption by Households and Government	Fixed 2010-11 $ (M)	38.7	39.9	41.6	**120.2**		**40.1**
Real Output	Fixed 2010-11 $ (M)	70.2	70.2	71.1	**211.6**		**70.5**

		12-13	13-14	14-15	Minimum	Maximum	Average per Year
Total Employment	Jobs	234	158	148	148	234	**179.8**
Population	Persons	160	320	418	160	418	**299.3**

Program Description…

Enacted in 2006, the Innovation Incentive Program[34] (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

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

sources.[35] IIP performance contracts also include a reinvestment requirement, obliging recipients to remit a portion of their royalty revenues back to the state for reinvestment. Upon completion of project milestones, payments can be requested at will and do not follow a predetermined schedule.

Analysis and Findings…

There were five program awards that received payments within the study's window. Four of the projects received only Innovation Incentive awards. The remaining project also received an award from the Quick Action Closing Fund. All of the companies that received Innovation Incentives are in the research and development industry. The average annual wage of the Innovation projects was nearly $78,000, which is almost 1.7 times the statewide average annual wage.

The ROI for the Innovation Incentive Program is 0.1, which is among the lowest ROIs reported for the incentive programs evaluated in this study. Because the award amounts for this program are very high relative to the output, the ROI is suppressed. During the window used for analysis, the Innovation Incentive project payments totaled $60 million. Even though the five Innovation Incentive recipients generated about $80 million of economic output, it came at a significant cost to the state. In addition, about 75 percent of the capital investments were made prior to the window, and therefore the full economic benefit of those investments is not captured in the program's ROI.

Another factor contributing to Innovation's low ROI is the industry composition of the projects in the analysis. Unlike other industries such as electronic computer manufacturing, the research and development industry has relatively low multiplier effects. As indicated below, the economic benefits to the state economy are not as high as other industries where specific products or services are produced and consumed.

Industry	Number of Jobs	Average Wage of Jobs (FY2012-13)	Ratio of Compensation-to-Wages (FY2012-13)	Output per Dollar of Employee Compensation (FY2012-13)	Estimated Total Output
Electronic Computer Manufacturing	50	$80,709	1.20	6.39	$618,597
Research & Development	50	$77,000	1.17	2.77	$248,892

To a large degree, the multipliers for research and development fail to capture its true benefit to the broader economy, in part because it has aspects of being a public good with significant positive externalities over the long-term. 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.

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; 75 percent of the capital investment associated with these projects occurred prior to the time period under review; 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, while EDR's analysis covers only three years in the early stages of the program.

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[35] 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.

ENTERPRISE ZONE PROGRAM

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." [36]

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. In 2015, Florida had 65 enterprise zones.[37] Florida also had three Federal Enterprise Communities and two Federal Empowerment Zones.[38] Certain federal, state, and local incentives were authorized to induce private businesses to invest in these enterprise zones. The program's state incentives included:

- 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.

In January 2014, EDR released a report entitled *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.

These conclusions were based on a number of factors, which included 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

[36] Sections 290.001 – 290.016, F.S.

[37] See Department of Economic Opportunity, Bureau of Economic Development, Division of Community Development. Enterprise Zone Program Annual Report, 2015. Tallahassee, Florida.

[38] The federal Empowerment Zones ultimately expired in 2014.

program primarily captures or shifts existing economic activity from other in-state locations to the zone rather than inducing new economic activity.[39]

Additionally, the report found that:

- Unless bundled with other incentives, enterprise zone incentives were an insufficient inducement to relocate to Florida.
- Many of the recipients were Florida market or resource dependent, which results in no return to the state. The remaining recipients were either previously in the state or indifferent to their location.
- While the EDR review of property value gains in representative enterprise zones was positive for the hosting local governments, the local gains were insufficient to overcome the overall negative to the state as a whole.
- EDR's conclusions were consistent with recent evaluations of similar programs in other states.

For this report, EDR did not revisit the prior return on investment since the Enterprise Zone Program was repealed by operation of law on December 31, 2015, and there is no reason to believe that the prior conclusions have changed. However, the Legislature has extended the incentives for certain recipients of other state economic development programs who were under contract with the Department of Economic Opportunity (DEO) by July 1, 2015.[40] Eligibility for this special treatment expires on December 31, 2018. In addition, during the 2016 Session, the Legislature clarified that counties and municipalities may grant economic development property tax exemptions in areas that were previously designated as enterprise zones, so long as the projects were approved prior to December 31, 2015.[41]

Fiscal Years 2012-13 through 2014-15		
Enterprise Zone Benefits	*Amount ($)*	
Building Materials Refund	$	3,215,041
Business Equipment Refund	$	3,794,752
Electrical Energy Exemption	$	1,971,189
Sales and Use Tax Jobs Credit	$	21,328,908
Corporate Income Tax Jobs Credit	$	8,641,888
Corporate Income Tax Credit for Paid Ad Valorem Taxes	$	2,870,983
Total	*$*	*41,822,762*

[39] 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.

[40] Section 30, ch. 2015-221, Laws of Florida.

[41] Sections 2-4, ch. 2016-220, Laws of Florida.

NEW MARKETS DEVELOPMENT PROGRAM

Project Summary Statistics…

		12-13	13-14	14-15	Total
State Payments in the Window	Nominal $ (M)	17.6	18.5	28.3	**64.3**
Total Net State Revenues	Nominal $ (M)	4.2	3.7	3.9	**11.8**
Return-on-Investment by Year		0.24	0.20	0.14	
Return-on-Investment for the 2 year period					**0.18**

		12-13	13-14	14-15	Total		Average per Year
Personal Income	Nominal $ (M)	92.4	87.6	99.0	**278.9**		**93.0**
Real Disposable Personal Income	Fixed 2010-11 $ (M)	73.7	69.6	78.2	**221.5**		**73.8**
Real Gross Domestic Product	Fixed 2010-11 $ (M)	120.8	96.5	96.9	**314.2**		**104.7**
Consumption by Households and Government	Fixed 2010-11 $ (M)	63.1	60.3	68.6	**192.0**		**64.0**
Real Output	Fixed 2010-11 $ (M)	181.5	138.0	136.5	**456.0**		**152.0**

		12-13	13-14	14-15	Minimum	Maximum	Average per Year
Total Employment	Jobs	456	226	196	196	456	**292.3**
Population	Persons	0	314	538	0	538	**284.0**

Program Description…

Using the already existing federal New Markets Tax Credit Program as a framework, the Florida Legislature enacted the New Markets Development Program Act in 2009 to:

> "…encourage capital investment in rural and urban low-income communities by allowing taxpayers to earn credits against specified taxes by investing in qualified community development entities that make qualified low-income community investments in qualified active low-income community businesses to create and retain jobs."[42]

Florida's New Markets Development Program (Florida NMDP) is based on the use of tax credits, rather than appropriations. It allows Florida taxpayers to earn tax credits by investing in Qualified Community Development Entities (CDEs) that make Qualified Low-Income Community Investments (QLICIs) in Qualified Active Low-Income Community Businesses (QALICBs).[43] Florida's program aligns with the Federal New Markets Tax Credit (Federal NMTC) program, largely relying on federal agency policies and administration.[44]

In describing the benefits provided through the Federal program, the Office of the Comptroller of Currency (2013, 3) reports:

> NMTCs provide resources that can help create a satisfactory loan structure for a customer who might otherwise be turned down or offered a loan at a much higher rate. The tax credit provides a subsidy that is used to substantially reduce the interest rate on loans to businesses or to

[42] Section 288.9912, F.S. The act was created in ss. 4-15, ch. 2009-50, L.O.F., which is codified as PART XIII, ss. 288.991 - 9922, F.S. The program was implemented in 2010.
[43] Section 288.9912, F.S.
[44] Florida's program is modeled on the Federal NMTC program. To the extent the statutes are ambiguous or fail to address administrative issues, the Department of Economic Opportunity relies on federal agency policies governing the Federal NMTC program.

> enhance the business owner's equity in a transaction by leaving a portion of the investment in the project after the NMTC compliance period…In addition, NMTC loans to qualifying businesses often have flexible terms, including lower origination fees, extended interest-only payment periods, higher loan-to-value (LTV) ratios, lower debt coverage ratios (DCR), and longer amortization periods.

Since its implementation in 2010, the Florida NMDP has provided funding to eighty-six projects in 24 counties located throughout the state. Twenty-four of these projects are in the manufacturing sector, 16 are in health care and social assistance, and 11 are in wholesale trade. The program also funded projects in the arts, entertainment and recreation industries (8),[45] hospitality (5),[46] office administration (4), education (4), and communications industries (2).[47] Florida NMDP QLICIs are limited to $10 million per QALICB. These loans or equity investments are used to fund the acquisition, construction, and renovation of facilities; purchase new equipment and inventory; refinance debt; reimburse parent companies; and provide operating capital for QALICBs.

The Florida NMDP provides investors tax credits, limited to 39 percent of the total leveraged Qualified Investment (QI). Leveraged QIs include equity generated from the sale of tax credits and additional funding from participating lenders (banks and other financial institutions, including CDE affiliates), QALICB business affiliates, and equity generated by Federal NMTCs. In addition to the tax credits, the investor may receive interest payments through the term of the loan on their portion of the QLICI. If the investor's return is sufficient, they may forego their equity investment after seven years, allowing the QALICB or the CDE to retain the principal from the investor's portion of the QLICI. The participating lender receives interest on their portion of the QLICI, and recovers (or refinances) the principal at the end of the seven-year term of the loan. Prorated credits can be claimed over the last five of the allowable seven years of the QI against Florida Insurance Premium or Corporate Income Tax liabilities.[48]

The investor's contribution to the total leveraged investment for the Florida or Federal program varies by project, depending on the combination of leveraged contributions to the QI, and the discount price of the credit to the investor.

EDR's survey of CDEs shows that an estimated sixty-four percent of Florida NMDP projects are combined with Federal NMTCs.[49] This "stacking" of credits enables both Florida and Federal tax credits to be generated from the same Florida-based project. For the investor seeking tax credits, this provides additional opportunities and typically increases the public subsidy to the funded projects.[50] State tax credits are currently capped at $216.34 million, with no more than $36.6 million available for allocation

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[45] To include: the Cade Museum in Gainesville; Glazer Children's Museum in Tampa; Tampa Bay History Center; Cocoa Expo Sports Center; The Florida Aquarium in Tampa; The Tampa Museum of Art; Community Maritime Park in Pensacola (Blue Wahoos minor-league baseball stadium); and The Amalie Arena in Tampa.

[46] To include: the Holiday Inn Hotel in Miami, Le Meridian Hotel in Tampa, the Orlando Historic Aloft Hotel, Aracle Foods (caterers), and a Sonic Restaurant, which was also intended to be used as a regional training center.

[47] To include: the Orlando Telephone Company and CA Daytona Holdings (Daytona Beach News-Journal and other regional media).

[48] Like the Florida NMDP, the federal tax credit equals 39 percent of the total leveraged investment, but unlike Florida, prorated credits are claimed annually over the entire seven-year term of the investment.

[49] This estimate is based on survey responses from 12 of 18 CDEs, representing 74 of the 86 projects (QALICBs) funded to date. The surveys showed that 2 CDEs use 16 QIs to fund multiple QALICBs – both initial and subsequent investments – while the other 10 responding CDEs use single QIs for individual projects. This estimate is based on the reported inclusion of Federal NMTC equity in the QI, whether used for individual or multiple projects.

[50] See Figures 2-6 in Appendix Two for examples of stacking of Florida NMDP and Federal NMTCs.

in any single year.[51] The Florida Department of Economic Opportunity (DEO) staff indicate that all of the credits have been allocated. The state program sunsets in 2022.

DEO administers the Florida NMDP, and the Florida Department of Revenue (DOR) issues tax credits to investors pursuant to a DEO-certified schedule. DEO does not evaluate projects to determine the state's likely return on investment as it does for many other state economic development incentives; rather, DEO allocates tax credits to any federally certified CDE authorized to service businesses in Florida,[52] provided general statutory criteria are met in the application.[53] While capital investment, job retention and creation are expressed purposes of the program, they are not conditions for receipt of program funding.[54]

CDEs are domestic corporations or partnerships with a primary role in administering the tax credit programs. In this regard, they function as intermediaries between the investors, financiers, and low-income community businesses. CDEs compete for Federal NMTC allocations, recruit investors and lenders, select and manage investments and ensure compliance with state and federal law for the term of the investment. CDEs form multiple special purpose entities (investment funds and affiliate or subsidiary-CDEs) to facilitate and administer individual QIs. Most importantly, CDEs determine which projects are funded.

The cost of administering both the Florida and Federal programs are largely borne by the CDEs. The complex inter-related, multiple-step transaction structures used by CDEs require "specialized legal and accounting skills" which generate "steep transaction costs."[55] These costs are recovered through deductions from the leveraged QI,[56] through transaction fees and recurring asset management fees assessed against the recipient QALICB, or by retaining some or all of the principal from the tax credit investor's portion of the QLICI at the end of the seven-year term of the investment. DEO does not require program administrative costs and associated charges or retentions for Florida NMDP projects to be reported. Since 2012, the Community Development Financial Institutions Fund (CDFI Fund) requires CDEs to provide QALICBs a "disclosure statement" of fees and interest for Federal NMTC projects.[57]

Appendix Two provides greater detail of the Florida New Markets Development Program. The appendix includes: a discussion of the Florida NMDP alignment with the Federal NMTC program; the principal agents in the Florida NMDP and Federal NMTC programs; definitions of key program terms; findings from relevant research regarding the Federal NMTC program; the inter-related, multiple-step project transaction structures; DEO and DOR's administrative processes; information from EDR's survey of CDEs; profiles of the Florida NMDP projects; and, a summary of the benefits to the program constituencies.

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[51] Section 288.9914(3)(c), F.S.

[52] Section 288.9913(6), F.S.

[53] Section 288.9914(2), F.S. The application requires proof of federal certification, identification of investors, an explanation as to how the investment will be used, and a commitment that statutory project criteria will be met. Unless offered in the application, DEO may be unaware of the specific projects the CDE has selected for up to fifteen months after the application has been approved.

[54] CDFI Fund allocates Federal NMTC authority to CDEs through a competitive application process. The CDFI Fund scores applications for allocation in four areas: community impact, business strategy, capitalization strategy, and management capacity. (NMTCC 2016, 8)

[55] OCC (2013, 19)and Deluca (2011, 9). Abravanel, et. al. (2013, 73) note that "Administrative costs have been a long-standing matter of concern for the NMTC program."

[56] Such deductions are limited to fifteen percent by Florida Law and Federal policies. There are indications that deductions from the Federal Qualified Equity Investment (QEI) are now limited to less than three percent, per CDFI Fund policy.

[57] The CDFI Fund is not required to collect these disclosure statements.

Additionally, the Appendix discusses evaluation considerations and various approaches to derive an estimate of the return on investment.

Analysis and Findings…
During the review period, investors in forty projects were eligible to receive a New Markets Tax Credit. Of the forty projects, fifteen were determined to be Florida market or resource dependent.[58] Consequently, the economic benefits from these projects were excluded from the analysis, leaving twenty five projects in the review period.

The tax credits generated by the Florida NMDP are provided over multiple years to eligible tax credit investors; credits can be carried forward for up to five years, and they may be transferred to other eligible owners. While DEO and DOR are required to be notified upon such transfers, their respective tracking systems are inadequate for EDR's purposes. EDR accounts for this by using the transaction date of the program and the statutory timeframe as to when the first credit could be redeemed to isolate the projects occurring in the review period. There were a total of $64.3 million in credits redeemed by tax credit investors during the review period.

The return on investment for the NMDP program is 0.18, which rounds to 0.2. Several factors contribute to the relatively low ROI:

- While capital investment, job retention and creation are program goals, they are not conditions for receipt of program funding.
- DEO does not evaluate projects for their potential return to the state as it does for many other state economic development incentives; rather, DEO allocates tax credits to any federally certified CDE authorized to service businesses in Florida, who then determine which projects are funded.
- For the projects in the review period, most of the loans or equity investments funded through the program were used for working capital, repaying debt or for real estate purchases.[59] Only 44 percent of the projects used any of their financing for construction or equipment purchases, economic activities that contribute to a higher ROI.
- Ten of the 25 projects also received Federal NMTCs. The state's output was reduced proportionally to reflect the state's portion of the total federal and state tax credits.
- The CDEs do not recycle the investment financed through the NMTC. The QALICBs typically receive their investment in the form of a loan and, after seven years, the QALICB is forgiven the loan or the CDE keeps the equity derived from the loan. As this investment could be used at no additional cost to the state to finance further projects, this is a loss to the state's economy.
- Incentivizing economic activity with tax credits that are purchased at a discount diminishes the value of the state's intended investment. To the extent that the transfer of credits takes place at a discount, the program could be directly funded at the discounted value of the credits and

[58] Because of the nature of the program, some projects that would have been culled under the other economic incentive programs being reviewed were not culled. In this regard, exceptions were made for projects where an underserved societal resource was being provided by a non-profit entity because these projects provided or consolidated local social services to underserved populations. In many cases, the services were unavailable or fragmented, so there was little or no displacement of existing related economic activity. It was assumed that "but-for" the New Markets Development Program, these non-profit organizations would not receive the funding for these types of projects.
[59] These types of expenditures are generally a rebalancing of a businesses' balance sheet – one asset for another or a reduction in liabilities. The statewide model is not structured to capture any benefits that may arise from the restructuring of a balance sheet. Additionally, any direct economic benefits are likely to be relatively minor and inconsequential.

potentially maintain the same level of activity. In effect, the state may be paying more than it has to for its intended result.

Comments…

While the return associated with the New Markets Development Program is relatively low, it is worth reiterating that the ROI does not address the social benefit of the program. The program goal of providing financing to businesses in low-income areas is unique to this program and could overall enhance the state's ability to improve these areas. A detailed discussion of the program can be found in Appendix Two.

APPENDIX ONE: Issues that Shape EDR's Analysis of Economic Development Incentive Programs and Calculation of Return on Investment

Introduction…
A number of issues shape EDR's analysis of economic development incentive programs and calculation of the state's return on investment (ROI).

EDR's analysis recognizes the role of incentives in government policy and business decisions, the types of economic development incentives used by the state, and the effect of subsidies on business behavior and the economy. The analysis also acknowledges circumstances which diminish the productive value of incentives: federal and local taxes; administrative costs associated with incentives; and the impact of transferable tax credits.

As with previous evaluations, EDR's calculation of ROI is based on the net economic impact rather than the gross economic activity generated by or attributed to program projects. The impact is due to new economic activity induced by a state subsidy after taking account of what would have occurred in the absence of this particular investment. EDR employs a number of approaches to isolate the new economic activity, including an assessment of the "but-for" assertion, culling the economic benefit from "Market or Resource Dependent" projects and accounting for any "Substitution Effect" on consumer spending induced by incentives or investments. The resultant net economic benefit may then be proportionately attributed to all contributors or contributing public programs. Culling "Market or Resource Dependent" projects and proportionally attributing of economic benefit is one strategy to derive a credible estimate of the program ROI to the state.

EDR also considers the opportunity costs of public funds redirected to economic development incentive programs and other initiatives, and factors such costs into the calculation of ROI.

The following is an overview of these issues that shape EDR's analysis and calculation of ROI.

Background and Role of Incentives…
Population growth is 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. The amplified boost to the economy that comes from exported products and services is not due to these types of businesses. For this reason, governments may seek to alter the natural path of the economy through active intervention.

The scholarly definition of economic development is much broader than generally understood in practice: it is the active government pursuit of economic growth and improvements in terms of population, gross domestic product, output, tax base, jobs, wages, per capita income, capital investments, and the overall well-being of citizens. Applying this definition, Florida's economic growth is affected by nearly everything state government does—from public school funding to road-building to the regulation of a specific industry. Ideally, economic growth is boosted by key government investments in public infrastructure and resources, provision of desired public services such as quality education and publicly- accessible research at universities, development of a technologically strong workforce, promotion of community development, and general improvement of the business climate. These investments also constitute economic development.

While the array of potential strategies is broad, the approaches favored by many governments have tended to target the expansion of capital investment and the creation of new job opportunities (preferably at above-average wages) at the business level. In this regard, the focus is on new business activity that brings new wealth, which when spent in the economy, induces the creation of additional jobs. To the extent this goal is achieved, the tax base is expanded, and governments may realize an increase in tax revenues.[60]

Often, a cornerstone of these strategies is the direct or indirect provision of economic development incentives to individual businesses. 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.

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.

In this process, incentives can play multiple roles. From the business perspective, economic development incentives are cash or other financial infusions that reduce capital or operating costs and may facilitate location or expansion decisions. From an economic development organization's (EDO) perspective, incentives help sites overcome deficiencies or mitigate weaknesses relative to other sites. Effectively, the incentive(s) is used to compensate the business for deficiencies in the other factors.

Classification of Incentives…

Any level of government may provide economic development incentives. 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 EDR's analysis, state incentives are classified into three general categories:[61]

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

Direct financial incentives provide monetary assistance to individual businesses from the state or through a state-funded organization. The assistance is provided through grants, loans, equity

[60] 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.
[61] 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.

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 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. 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.

Indirect Incentives include grants and loans to local government entities, non-profits, and organizations to support business investment or development. The recipients include communities, financial institutions, universities, community colleges, training providers, venture capital investors, and business incubators. In many cases, the funds are tied to one or more specific business locations or expansion projects. Other programs are targeted toward addressing the general needs of the business community, including infrastructure, technical training, new and improved highway access, airport expansions and other facilities. Funds are provided to the intermediaries in the form of grants, loans, and loan guarantees.

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.

On the local level, a wide array of 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[62]. In local Fiscal Years 2010 through 2015, 49 (of 67) Florida counties and 77 (of 411) Florida municipalities reported awarding $468 million in economic development incentives to more than 8,400 businesses.

[62] http://edr.state.fl.us/Content/local-government/reports/econincentives15.pdf

In OPPAGA's 2013 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, 4 companies received both local and federal incentives, 17 companies stated they received local incentives, and 5 responded they received incentives from federal agencies. Other than these results, which are merely suggestive, EDR does not know the total 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.[63] 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.

Treatment of Incentives as a Subsidy…

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." [64]

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 that 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.

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;

[63] 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.
[64] Black's Law Dictionary, 5th Edition, 1999.

- 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.

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.[65]

- 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, adding up all of the business' income and deducting the business' normal expenses of doing business determines a business' income tax liability. 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

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

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 the 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 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. 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.

Awarding Transferable Tax Credits…

Many states use transferable tax credits to incentivize a variety of private economic activities. Businesses without sufficient tax liability may sell their credits to someone with a tax obligation, either directly or through an intermediary, and typically at a discount. Some states may also offer to buy-back the credit, typically at a pre-set discount. In both circumstances, the credit functions as a cash grant, thereby offsetting their production costs. Selling tax credits, or redeeming them through state buy-back programs, allow companies to monetize the credits immediately when they have little or no tax liability.

Incentivizing economic activity with transferable tax credits may cost states considerable foregone tax revenue that does not directly benefit the incentivized activity. The act of transferring the credits at a discount means some of the benefit (equal to the discount) goes to unrelated industries. In effect, the state pays more than it has to for the same amount of production activity.

The "But-For" Assertion & Business Decisions…

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. The necessity of offering such incentives has been the subject of much research.

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

Evaluating the extent to which economic development incentives are determinative in business expansion 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 in verifying that 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 their 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 locational decisions, with one researcher concluding that "there are very good reasons – theoretical, empirical, and practical – to believe that economic development incentives have little or no impact on firm location and investment decisions."[66]

The "but for" assertion is less likely to be satisfied for those projects where the incentive is relatively insignificant in proportion to 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 by driving up the cost.

Perhaps the most that can be presumed is that it is highly unlikely that all projects receiving economic development 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.

Understanding the extent that the "but for" condition is satisfied has implications for measuring the return on investment of economic development programs. For EDR's purposes, the ROI is a measure of the change in state revenues in response to state incentives. Depending on the program under review, EDR may find that the change is attributed solely to those state investments, partially to those investments, or not at all.

If the incentive does not influence a business' decision to expand, then the jobs created and economic gains stemming from that business' increased presence cannot be attributed to the incentive, and instead the payments or credits are only a cost to the State.

This cost has two negative outcomes: an unnecessary shift of recipient business costs to taxpayers and a reduction in available funding for other public services, some which promote or are necessary for economic growth.

Florida Market or Resource Dependent Projects…
An additional issue that informs the "but-for" assertion and impacts EDR's 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. (General examples of market dependent projects include retail establishments or local product distribution centers.) Any new activity induced by the incentives simply displaces other employment and economic activity that would have occurred in the absence of the incentive. There is no net economic expansion, as one of two events occurs: (1) an existing businesses shed jobs as their market share decreases; or, (2) a competitor that would have filled the same vacuum without receiving an incentive is displaced. In these cases, neither economic benefits nor a return to the state should be assigned to the projects.

In contrast, a business is generally not considered market or resource dependent if it is likely that it exports a majority of its goods and services out of the state.

Another type of market dependency includes companies with a presence in the state that are awarded incentives for multiple projects, typically over multiple years. In certain circumstances, this practice challenges the validity of the "but for" assertion. While it is possible that a subsequent stand-alone

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

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 purported new economic activity and resulting ROI.

Substitution Effect…

The “substitution effect” in consumer spending is a related aspect of Florida market dependency, typically identified in the academic literature regarding event or entertainment spending by local, regional or other in-state residents.

For example, there is consensus among economists that the only tangible economic benefits to the area economy from subsidies for professional and amateur sporting events, unique sports-destination facilities, and other entertainment events related to such facilities, are the result of new spending in the area economy associated with event or facility-related activities.[67] This new spending is primarily by visitors from out-of-area, to the extent that such spending would not have otherwise occurred absent attending the event or facility; however, new spending can also include associated capital expenditures.

New spending specifically excludes substitute spending by in-area residents, “casual visitors” or “time-switchers” whose primary purpose for visiting is unrelated to the event or facility.[68] In these cases, the same amount would have been spent, and the spending related to events or facilities is simply redirected from what would have occurred absent the event on other things in the area economy.

In this context, the “substitution effect” is best described as spending limited disposable entertainment income in or about an event or facility-related activities rather than in other areas of the local economy, or increases in discretionary spending in one area of the economy at the expense of another.

Proportional Attribution…

Some economic development projects are funded through a single state economic development incentive program, while others also receive funding from other state programs. Additionally, projects may be “bundled” with local or federal incentives. In some cases, state funding is contingent upon private inputs. When financing responsibility for projects or programs is shared, the economic benefit should be proportionately attributed among the contributors or contributing programs.

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 annual Economic Development Incentives Report compiled and published by EDR.

Federal incentives are available in the form of grants, exemptions, and tax credits.

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[67] See Howard and Crompton 2014, 192-202; Agha & Rascher 2013, 4-5, 8-10; Long 2013, 8-9; Baade and Matheson 2011, 8-15; Santo 2010, 57-58; Baade in Pindus, Wial and Wolman 2010, 186-188; Coates and Humphreys 2008, 298; Baade, Baumann and Matheson 2008, 796; Crompton 2006, 70-72; 1995, 26-29; Coates 2003, 7-8; Hudson 2001, 27-28, 37; Rosentraub 1999, 132-133; Siegfried and Zimbalist 2002, 363; Siegfried and Zimbalist 2000, 99-100; Rappaport and Wilkerson 2001, 62; Zaretsky 2001, 3; Johnson, Groothuis and Whitehead 2001, 7; Zimbalist in Rich 2000, 60; Sanderson 2000, 173; Noll and Zimbalist 1997, 55-75; and Burns and Mules 1986, 8-9, 12-13.

[68] As defined by Agha and Rascher (2013, 4 and 5), “Casuals” are visitors who visit the local economy for a reason besides the sports team and then decided to attend a game once they are in town; and “Time switchers” are those visitors who were planning a trip to the local economy anyway and changed the timing of their trip to coincide with a game.

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

In the context of sporting events, Burns and Mules (1986a, 10, 31) suggest that:

> "Where only part of the costs are funded by the government, the analysis should either attribute all benefits to joint costs or else attempt to ascertain the marginal effect on benefits received by the additional funding made possible by the government. If all the benefits generated by joint private-public sponsorship of an event are attributed to the government contribution alone, the benefit-cost ratio may falsely appear very favorable. This is especially true if the government contribution is a relatively small amount of the total."[69]

While Crompton (1995, 30) supports this perspective, he observes that:

> "This viewpoint is conceptually logical, but it is not widely accepted by those involved in conducting economic impact analyses, possibly because it ignores the pragmatic reality of public-private sports partnerships. Proponents of attributing all the economic benefits to the government entity's contribution argue that it is the key to leveraging private sector participation in a venture. In such cases, without the public investment there would be no private investment and the sports event would not take place."[70]

For Hudson (2001, 24), if this "but for" assertion is valid, then "it is surely a mark of efficient subsidization if a government can spend as little as possible while ensuring" that a facility project goes ahead. For example, if a sports franchise would have left absent the government subsidy for a new facility, "it seems valid for the government to claim the full economic benefits."[71]

In light of these perspectives, the economic benefit could be attributed in one of three ways. To the extent input information is known and available, the estimated benefit could be distributed to all entities, public and private, that contribute to the financing of a project or facility, in proportion to their respective shares of the total investment. Or, the benefit could be attributed in proportion to each share of the total public contribution. For example, if both the state and one or more local governments contribute to the financing of a project or facility, the ROI should correspond to the split between those public entities. If the local inputs outweigh the state's contribution and is ignored, the ROI to the state will be overstated.

Similarly, if only the state's contribution is considered in projects financed by state, local, federal and private funds, the ROI to the state may be significantly overstated. On a program level, this is demonstrated by the state portion of sports facility financing. EDR's 2015 review of Florida's

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[69] Burns , J.P.A and T.J. Mules, "A Framework for the Analysis of Major Special Events." The Adelaide Grand Prix: The Impact of a Special Event, J.P.A Burns, J.H. Hatch, T.J Mules, eds. (Adelaide: The Centre for South Australian Economic Studies, 1986.) Pages 10, 31.
[70] Crompton, John L., "Economic impact analysis of sports facilities and events: Eleven sources of misapplication." Journal of Sport Management, 9(1), 1995: 30.
[71] Hudson, I., "The Use and Misuse of Economic Impact Analysis: The Case of Professional Sports." Journal of Sport and Social Issues, 25(1), 2001: 24.

Professional Sports Franchise Incentive and Spring Training Baseball Franchise Incentive programs found that "on average, the state funded 17.4 percent of pro sports facility projects and 37.4 percent of spring training facility projects."[72]

Finally, proportionate attribution of economic benefit is one strategy used to compensate for the uncertainty of the 'but-for' assertion in determining the influence or significance of a public incentive in business decisions. In doing so, a realistic estimate of the state's ROI can be derived.

Opportunity Costs…

Opportunity costs can be defined as the benefits that would be forthcoming if the public resources committed to a project or program were redirected to other public services or retained by the taxpayer. Identifying opportunity costs acknowledges that limited public funds used as business subsidies will be at the expense of government spending for other projects or programs, or spending by individuals subject to taxation. Such public investments should be compared with the best feasible alternatives.

Some states use reserve or escrow accounts to set aside public funds for economic development incentive programs. This may also constitute an opportunity cost. The reservation of funds effectively makes the initial expenditure nonproductive by removing reserved funds from circulation within the economy. The money is idle from the moment it hits the reserve until it is released back into the economy. From an economic perspective, this idle money is forgone state expenditures on alternative investments – either through appropriation to other programs or through tax relief.

EDR's analysis assumes that any state expenditure made for economic development incentives, other state programs or initiatives (such as tourism marketing, international trade promotion, recruitment of foreign direct investment, and beach restoration) is a redirection from the general market basket of goods and services purchased by the state.

[72] The Florida Legislative Office of Economic & Demographic Research, "Return on Investment for the Florida Sports Foundation Grants and Related Programs." January, 2015. Appendix 1, page 2.

APPENDIX TWO: *The Florida New Markets Development Program*

Introduction…

In 2009, the Florida Legislature enacted the New Markets Development Program (NMDP) Act to:

> "…encourage capital investment in rural and urban low-income communities by allowing taxpayers to earn credits against specified taxes by investing in qualified community development entities that make qualified low-income community investments in qualified active low-income community businesses to create and retain jobs."[73]

Florida's NMDP was implemented ten years after Congress created the Federal NMTC program.[74] Florida's program aligns with the Federal NMTC program in the following ways:

- Florida's NMDP was modeled on the federal program, and the governing statutes mirror key provisions in the Federal law;[75]
- To the extent the Florida Statutes are unclear or inconsistent, the Florida Department of Economic Opportunity (DEO) relies on Federal agency policies governing the Federal NMTC program;[76]
- For the most part, the two programs' nomenclature is interchangeable, and the same principal agents participate in both programs;
- Project transaction structures are similar, and accommodate combining or "stacking" of Florida NMDP tax credits with Federal NMTCs in a single project;[77] and
- With one exception, Florida NMDP tax credit allocations are limited to federally certified CDEs authorized to service businesses in Florida.

Like the Federal NMTC program, Florida NMDP projects are funded with equity from the sale of tax credits and funds from leveraged lenders, which are combined into an investment fund, a special

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[73] Section 288.9912, F.S. The act was created in ss. 4-15, ch. 2009-50, L.O.F. and codified as PART XIII, ss. 288.991 - 9922, F.S. The program was implemented in 2010.

[74] The Federal program was authorized by the Community Renewal Tax Relief Act of 2000 (Public Law 106-554) and is jointly administered by the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund) and the Internal Revenue Service (IRS). Abravanel, et. al. (2013, v. and 2) characterize the Federal NMTC program as a public-private partnership: "… CDEs, which are private entities, select projects/QALICBs in which to invest, locate potential investors, work with QALICBs to structure their investments so they are consistent with the federal tax code and IRS program regulations, and report back to the CDFI Fund on their investments." The CDFI Fund qualifies CDEs to participate in the program, and CDEs attest to compliance with the federal law and related agency regulations. Florida's NMDP may also be characterized as a public-private partnership, as it largely mirrors the Federal NMTC program.For a history of changes to the federal law, see GAO (GAO 07-296, 11-12) and Marples (2012, 5). For an overview of the political genesis of the program, see Armistead (2005a, 8-9); Roberts (2005, 21-29); Rubin and Stankiewicz (2005, 1 and 5-8)

[75] Staff analyses from earlier versions of the enacted legislation state that the then proposed program is modeled after the federal program, and its "purpose is to make Florida more attractive to national investors participating in the federal New Markets Tax Credits program by establishing a state "piggyback" on tax credits offered by the federal program." http://archive.flsenate.gov/data/session/2007/Senate/bills/analysis/pdf/2007s2280.cm.pdf

[76] For an overview of these policies and processes, see OCC (2013, 4-14); Marples (2012, 1-4); GAO (GAO 07-296, 7-10), (GAO 10-334, 4-8), and (GAO 14-500, 10); Abravanel, et. al. (2013, 14-21); Lambie-Hanson (2008, 7-11) and Armistead (2005a, 13-21).

[77] An EDR survey of CDEs shows that an estimated sixty-four percent of Florida NMDP projects are combined or "stacked" with Federal NMTCs. This stacking of credits enables both Florida and Federal tax credits to be generated from Florida-based projects, which provides additional opportunities for tax credit investors, and typically increases the public subsidy to funded projects. While this practice is typically referred to as "stacking of credits," a more accurate description is stacking or combining equity generated by the sale of tax credits. The GAO (GAO-14-500, 9 and 11-13) references the broader term "twinning" of Federal NMTC with other tax credits (to include state New Markets tax credits) or other public assistance.

purpose entity created by a Qualified Community Development Entities (CDEs). Fund proceeds are used by the CDE (typically a subsidiary-CDE) to make Qualified Low-Income Community Investments (QLICIs, which are typically loans) in Qualified Active Low-Income Community Businesses (QALICBs). Tax credit investors receive a 39 percent tax credit on the total leveraged investment against their Florida Insurance Premium Tax or Corporate Income Tax liabilities over the last five of seven years.[78]

Florida's program, however, differs from the Federal NMTC program in the following ways:

- Florida's law includes job retention and creation as a stated purpose of the program, while the Federal law does not.[79]
- Projects are limited to Florida businesses in specific industries, as determined by DEO in consultation with Enterprise Florida (EFI); the range of qualified projects is much broader under the Federal program.
- The statutory annual allocation of Florida tax credits is prorated among all Federal CDFI Fund approved applicants, while the federal tax credit allocations are based upon an aggregate ranking by the CDFI Fund.[80]
- While neither program actually requires QALICBs to retain or create jobs, Florida's program requires CDEs to certify that any retained or created jobs pay an average wage of at least 115 percent of the federal poverty income guidelines for a family of four.[81]
- The credit exchange schedule is different: CDEs have five years to sell Federal NMTC to investors,[82] whereas CDEs have 60 days after allocation by DEO to monetize Florida NMDP tax credits.
- The credit redemption schedule is different: investors receiving the federal credit can claim the NMTC over a seven-year period, starting on the date of the investment and on each anniversary, at a rate of 5 percent for each of the first three years and a rate of 6 percent for each of the next four years, for a total of 39 percent. Investors receiving the Florida credit can claim the tax credit over a seven-year period, starting on third investment anniversary date, at a rate of 7 percent, and a rate of 8 percent for each of the next four years, for a total of 39 percent.[83]
- As for terminology, the Federal NMTC program refers to Qualified Equity Investments (or QEI, which includes equity generated from the sale of tax credits and additional funding from

[78] Section 288.9916(1), F.S. Like the Florida NMTC, the federal tax credit equals 39 percent of the total leveraged investment and is claimed over seven years.

[79] The Federal law creating the NMTC program authorizes tax credits for capital investments through private intermediaries in targeted geographic areas, and provides a framework for administering the program. It does not, however, express the program's purpose. See GAO (GAO-03-223R, 1) and (GAO 10-334, 27); Rubin and Stankiewicz (2003, 2) and (2005, 4-6); Abravanel, et. al. (2010, 9-10); Abravanel et. al. (2013, 8-11 and Footnote 31); and Lambie-Hanson (2008, 24). The New Markets Tax Credit Coalition, a group that represents CDEs and Community Development Financial Institutions, advocates for the NMTC program (NMTCC 2014, 3). The Coalition offers this perspective:

> "The purpose of the new tax incentive was to spur private sector investment in economically distressed urban and rural areas often left out of the economic mainstream. While not explicitly intended as a job creation initiative, mayors, local leaders, and community development practitioners soon learned that with billions in new investment comes thousands of jobs, from construction employment to new fulltime positions at manufacturing facilities, healthcare clinics, small businesses, and other new ventures.

[80] CDFI Fund allocates Federal NMTC authority to CDEs through a competitive application process. Applications for allocation are scored by the CDFI Fund in four areas: community impact, business strategy, capitalization strategy, and management capacity. (NMTCC 2016, 8)

[81] Section 288.9914(2)(k), F.S.

[82] Lambie-Hanson (2008, 8)

[83] Section 288.9916(1)(a) and (b), F.S.

leveraged lenders or QALICB affiliates (the base for calculating Federal tax credits), while Florida's governing statute uses the term Qualified Investments (QI).[84]

The remainder of this Appendix identifies the principal agents in the Florida NMDP and Federal NMTC programs; defines the key program terms; includes findings from relevant research regarding the Federal NMTC program; generally describes the inter-related, multiple-step project transaction structures; outlines DEO and DOR's administrative processes; and, using information from EDR's survey of CDEs, profiles the Florida NMDP and project transaction structures, showing how tax credits from the Florida NMDP are combined or "stacked" with the Federal NMTC program. Additionally, it also discusses evaluation considerations and various approaches to derive an estimate of the program's ROI.

Terms and Principal Agents…

The following discussion identifies the principal agents in the Florida NMDP and Federal NMTC programs, defines key program terms and explains their application, and includes relevant research regarding the Federal NMTC program.

<u>Community Development Entities</u> (CDEs) are domestic corporations or partnerships with a primary role in administering the tax credit programs, functioning as intermediaries between the investors, financiers, and low-income community businesses.[85] CDEs compete for tax credit allocations, recruit investors and lenders, select and manage investments, and assure compliance with state and federal law for the term of the investment. CDEs form multiple special purpose entities (investment funds and affiliate or subsidiary-CDEs) to facilitate and administer individual QLICIs. Armistead (2005a, 14) notes that "a CDE is a new concept invented for this program." To be eligible for an allocation of tax credits from the CDFI Fund, a CDE must:

- Have as its primary mission serving, or providing investment capital for, low-income communities or low-income persons;
- Maintain accountability to residents of low-income communities through their representation on any governing board of the entity or on any advisory board to the entity; and
- Be certified by the CDFI Fund as being a qualified community development entity.[86]

Armistead (2005b, 19) classifies CDEs into three groups:

- Those with profit-driven parents, such as banks and other providers of financial services;[87]
- Those with mission-driven non-profit parents and intermediaries, Community Development Financial Institutions and related organizations; and
- Those with governmental parents such as housing finance agencies or public economic development agencies.

For-profit affiliated CDEs have advantages due to their experience and expertise in administering other public subsidies for lower-middle-market companies and low-income communities, as well as their

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[84] However, program records indicate that CDEs and Florida DEO staff refer to the Florida QI as a QEI.
[85] Nonprofits, government agencies, and Community Development Financial Institutions must form for-profit subsidiary CDEs to receive tax credits and make equity investments.
[86] 26 U.S. Code Sec. 45D(c)(1)(A).
[87] See Rubin and Stankiewicz (2005, 6-7) for a discussion on the initial advantages profit-driven CDEs had in the allocation process, and their related concerns regarding program goals and outcomes. Also see Armistead (2005a, 28-29).

ability to access private capital. Affiliates of these CDEs may also be leveraged lenders to the NMTC projects.

However, CDEs affiliated with non-profits may have more extensive relationships with low-income communities and their needs. Regarding the distinctions between CDEs, the New Markets Tax Credit Coalition (NMTCC 2016, 10) reports:

> "…CDEs choose projects that maximize community benefit. Regardless of whether a CDE is a mission-driven organization or the community development arm of a bank, they have a vested interest in stretching each dollar of NMTC to the max. The competitive allocation process awards CDEs that can document significant community impacts, including job creation, added amenities, and benefits to low-income families."

Banks can participate in the program in several ways: as an investor; as a participating lender in the leveraged project transaction; and as an administering CDE. The Office of the Comptroller of Currency (OCC 2013, 19) reports that:

> Large-bank CDEs have developed specialized NMTC programs that are augmented by the bank's traditional commercial and institutional underwriters and credit committees. Typically, the large banks combine staff with investment and CDE responsibility. Smaller community banks, generally with assets greater than $1 billion, have also developed CDEs using a limited number of dedicated staff and drawing upon existing bank resources as needed. In at least one case, a consortium of community banks has used a CDE that is housed in a trade association. Most CDEs draw on specialized consultants to help them set up compliance and project-tracking systems and to audit those systems on an ongoing basis.

Banks participate in program projects for a number of reasons. First, the project risk is shared with the investors, as the loans are just one portion of the total QLICI. Second, lending through CDEs to QALICBs may help banks "meet Community Reinvestment Act (CRA) and similar requirements and … further their community development missions." Banks may also form their own CDEs and attendant Investment Funds, blending the investment, administrative and lending functions within their corporate structure.

The Community Development Financial Institutions Fund (CDFI Fund) is a part of the U.S. Department of the Treasury. The U.S. Department of the Treasury and the Internal Revenue Service (IRS) jointly administer the Federal NMTC program. The CDFI Fund qualifies CDEs to participate in the program, and allocates[88] federal tax credits among competing CDEs.[89] As to the extent of agency oversight, Abravanel, et. al. (2013, 3) note that CDEs are required attest to compliance with the federal law and related agency regulations, and submit "limited information on individual project activities, outputs, or outcomes."[90]

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[88] Technically, CDEs are awarded "allocation authority," which is the limit in QEIs from which tax credits are calculated. See Abravanel, et. al. (2013, 11-13.) To date, the total allocation authority issued by the CDFI Fund to CDEs is $47 billion, and the dollar value of tax credits is $18.1 billion. http://www.novoco.com/new_markets/

[89] CDFI Fund allocates Federal NMTC authority to CDEs through a competitive application process. Applications are scored by the CDFI Fund in four areas: community impact, business strategy, capitalization strategy, and management capacity. (NMTCC 2016, 8) For an overview of the application process, see GAO (GAO 10-334, 6-8) & (GAO 07-296, 7-8); Abravanel, et. al. (2013, 15-16); and Armistead (2005a, 4). For a critique of the application process, see Rubin and Stankiewicz (2005, 3-7).

[90] Abravanel, et. al. (2013, 3) also conclude that while "a professional association that represents and supports CDEs surveys its members and disseminates information on successful NMTC-financed projects, these surveys do not provide a comprehensive picture or independent evaluation of the program."

The Florida Department of Economic Opportunity (DEO) administers the Florida NMDP. DEO does not evaluate projects for their potential returns to the state as it does for many other state economic development incentives; rather, DEO allocates tax credits to any federally certified CDE authorized to service businesses in Florida,[91] provided general statutory criteria is met in the application.[92] When requested, DEO approves the transaction structures for specific projects. While capital investment, job retention and creation are expressed purposes of the program, they are not conditions for receipt of program funding.[93] DEO also monitors program compliance with the information submitted in two required annual reports from the CDEs.

The Florida Department of Revenue issues tax credits to investors pursuant to a DEO-certified schedule.

An Investment Fund is a special purpose entity created to receive qualified investments from tax credit investors, funds from participating lenders (banks and other financial institutions, including CDE and QALICB affiliates), equity generated from Federal NMTC investors, and funds from any other public and private sources. A fund may be formed for an individual project or as an investment pool. CDEs use proceeds from the Investment Fund to make QLICIs in QALICBs. When Florida NMDP tax credit equity is "stacked" with Federal NMTC generated equity, CDEs may use a separate Federal Investment Fund to received Florida QI funds to facilitate the transaction.

Investors in the Florida NMDP are limited to businesses with Florida Insurance Premium Tax or Corporate Income Tax liabilities.[94] When CDEs receive an allocation of tax credits, they monetize the credits by selling them at a discount to eligible taxpayers through the Investment Fund. Tax credits issued through the Florida NMDP are "earned" [95] and claimed by tax credit investors based on their ownership interest in the Investment Fund, the special purpose entity created specifically for this purpose. Any referenced discount or price of the credit simply reflects the investment-to-credit ratio, showing the investor's projected return on investment (less the time value of money).[96] Ownership interest may be transferred at any stage in the life of the fund to another eligible taxpayer.[97]

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[91] Section 288.9913(6), F.S.

[92] Section 288.9914(2), F.S. The application requires proof of federal certification, identification of investors, an explanation as to how the investment will be used, and a commitment that statutory project criteria will be met. Unless offered in the application, DEO may be unaware of the specific projects the CDE has selected for up to fifteen months after the application has been approved.

[93] Perspectives vary on whether the federal program may be considered an economic development incentive. For example, an economic analysis commissioned by the Florida Coalition for Capital (WEG 2013, 1) stated the federal NMTC program "is an economic development tool that relies on a market-based approach to expand credit, capital and financial services to low-income communities." The New Markets Tax Credit Coalition (NMTCC 2016, 3) describes the Federal NMTC program as "a market-driven approach to community development and poverty alleviation…," serving as "an efficient incentive for community renewal." In 2011, the Congressional Budget Office (DeLuca et. al, 2011, 1) found that "…the NMTC, in its current form, is not fulfilling the basic criteria implicit in any publicly funded economic development program."

[94] As for investors in the Federal program, the Office of the Comptroller of Currency (OCC 2013, 20) reports that "the number and type of investors still tends to be very concentrated…with a large percentage of QEIs coming from banks, and a significant portion of that investment coming from a limited number of large financial institutions. These investors have traditionally had a strong appetite for NMTCs and a high degree of familiarity with the program's complex structures, making these investors an easy first choice for many CDEs." Also see GAO (GAO 07-296, 24-27); and Abravanel et. al. (2013, ix-x).

[95] Section 288.9916(1), F.S.

[96] Because the investor "normally receives a sufficient return on its investment from the tax credits alone," the investor does not need to recover their equity in the QLICI." (OCC 2013, 10)

[97] Section 288.9916(2), F.S.

When evaluating the price of credits, investors consider the costs of participation level of risk and rate of return compared to alternative investments; the likelihood of having a tax liability; and, the net present value of the credits. EDR's research indicates that the investment-to-credit ratio for Florida NMDP tax credits varies, but is typically 1:2, or 50 cents for a one-dollar tax credit.[98] In its 2015 survey, the NMTC Coalition (NMTCC 2016, 17) indicated that 65 of its more than 150 members reported that for the Federal NMTCs, pricing ranged "between 80 cents and 86 cents and the average price was 84.1 cents, up from 83.3 cents in 2015." [99] Abravamel, et. al. (2013, 86) note that "the pricing determines the level of funds made available for loans and investments" and offers that "the prices paid for these credits constitute a critical programmatic output, and can be considered a measure of efficiency (tax revenues foregone per dollar of investment provided)."[100]

The term Qualified Investment (QI) appears to be used two ways in the Florida Statutes: it is the amount a tax credit investor pays into an Investment Fund in exchange for tax credits; and, it is the total amount of funds in the Investment Fund. Proceeds from the QI are used by CDEs to make QLICIs in QALICBs.

In practice, the term Qualified Investment is synonymous with the term Qualified Equity Investment (QEI), as used in the Federal NMTC program. A QEI is defined in Federal law as "any equity investment in a qualified community development entity if…such investment is acquired by the taxpayer at its original issue … solely in exchange for cash…"[101] A plain reading of this provision defines the QEI as the amount a tax credit investor pays into an Investment Fund in exchange for tax credits. However, in 2003 the IRS broadened this definition by confirming "the ability to use private funding to leverage a NMTC structure."[102] This allows leveraged loans to be included in what constitutes a QEI, thereby increasing the base upon which tax credits are calculated and increasing investor returns. In the following year, the US Department of the Treasury further allowed "the NMTC to be combined with other tax credits."[103]

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[98] This estimate is based on information provided by CDEs to EDR and DEO, regarding a majority of the projects that were reviewed. Surveys show one CDE indicated tax credit discount rates ranging from 29 to 78 cents.

[99] A 2013 Office of the Comptroller of Currency Report (2013, 2) found that "based on the interviews that we conducted in 2011, investors were paying 65 to 73 cents on the dollar for credits, with most realizing returns in the range of 7.5 percent to 8.5 percent." Abravanel, et. al. (2010, 74) found that:

> "In the early years the credits sold for $.40 to $.50 on the dollar, but with the corporatization of the program's investors in 1990, prices rose to $.65, increasing upwards of $.77 in the late 1990s and early 2000s with the entrance of CRA (Community Reinvestment Act) and GSE (Government-Sponsored Enterprise) goal-motivated investors."

[100]As to the efficiency of using discounted tax credits as a means to promote redevelopment, DeLuca (2011, 9) found, "the likelihood that selling the NMTC at an attractive rate to a tax-credit purchase is less efficient than just subsidizing CDFI equity directly at the present value of the seven-year return on that tax credit." In its 2010 report, the GAO (GAO 10-334, 20 and 28) found that discounts on NMTCs reduces available capital to QALIBs. Further, they find "…according to our analysis, replacing the tax credit with a grant likely would increase the equity that could be placed in low-income businesses and make the federal subsidy more cost-effective." Also see GAO (GAO 14-500, 24). Marples (2012, 7) notes that a replacement grant program "may be able to deliver the same level of incentive with lower cost to the government, as investors do not generally "buy" tax credits at face value – allowing a smaller grant to provide a similar level of incentive."

[101] 26 CFR Section 45D(b)

[102] See Rev. Rul. 2003-20:

> Section 45D(b)(1)(A) requires that a qualified equity investment be acquired by the taxpayer solely in exchange for cash. Section 45D does not prohibit a taxpayer (including any taxpayer who is a person as defined under § 7701(a)(1)) from using cash derived from a borrowing, including nonrecourse borrowing, to make a qualified equity investment in a qualified community development entity.

Also see GAO (GAO 2014-500, 10).

[103] GAO (GAO 2014-500, 10).

Qualified Low-Income Community Investment (QLICI) is defined as "a capital or equity investment in, or loan to, any qualified active low-income community business."[104] QALICIs are funded by the proceeds from QIs in the Investment Fund. As with the Federal NMTC program, CDEs are required to invest eighty-five percent of the Qualified Investment through QLICIs in QALICBs.

A Qualified Active Low-Income Community Business (QALICB) is defined as a nonprofit or for profit business that derives, uses and performs a set amount of its business activity within a low-income community.[105] The Federal NMTC program authorizes funding for a broader range of businesses than does Florida's program, which limits investments to Florida businesses in specific industries, as determined by DEO in consultation with Enterprise Florida (EFI).[106] The most recent Eligible Industry list (2014) is presented below.

2014 Florida New Markets Development Program Eligible Industry List

Eligible NAICS Sector And Subsector Codes	NAICS Description
23	Construction
31-33	Manufacturing
42	Wholesale Trade
445110	Subsector- Supermarkets (Must be located within a federally designated food desert.)
481, 482, 483, 484, 488 & 493	Subsectors- Air Transportation, Rail Transportation, Water Transportation, Truck Transportation, Support Activities for Transportation and Warehousing and Storage
51	Information
52	Finance and Insurance
54	Professional, Scientific, and Technical Services
55	Management of Companies and Enterprises
5611 & 5614	Subsector- Office Administrative Services and Business and Support Services
61	Educational Services
62	Health Care and Social Assistance
71	Arts, Entertainment, and Recreation
811	Subsector- Repair and Maintenance

DEO is authorized to waive this limitation "if the department determines that the investment will have a positive impact on a community."[107]

Both the Florida NMDP and Federal NMTC program are place-based subsidies, targeting Low-Income Communities (LICs).[108] In 2010, the GAO (10-334, 8) noted that 36 percent of the US population lives

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[104] Section 288.9913(8), F.S. The federal definition is broader. See 26 CFR ss. 45D(d). For a discussion on the characteristics of Federal QLICIs, and the suggested "real estate tilt" in the program, see Lambie-Hanson (2008, 7-11 and 19-27).

[105] Section 288.9913(5), F.S. The following businesses are specifically ineligible: business that engage predominantly in the development or holding of intangibles for sale or license; businesses that operate a private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack, gambling facility, or a store the principal business of which is the sale of alcoholic beverages for consumption off premises; or certain farm enterprises. The most recent Eligible Industry list (2014) is available @ http://www.floridajobs.org/community/NMDP_EligibleIndustryList.pdf

[106] Section 288.9914, F.S.

[107] Section 288.9914(1)(b), F.S.

[108] Section 288.9913(3), F.S., defines "Low-income community" as any population census tract within the state where:

(a) The poverty rate of such tract is at least 20 percent; or
(b) In the case of a tract that is:

within 39 percent of the census tracks in the US that are eligible for NMTC projects.[109] The extent of the geographic area allows CDEs broad latitude in selecting project sites.

Using census tracks as the means to target investments has its detractors. For DeLuca, et. al. (2011, 12) and Forbes (2005, 194-5), targeting geographic space by census tracks may not necessarily meet the needs of the people within that space. In his examination of the effects of investments subsidized by the program, Freedman (2012, 1-2) found modest benefits, at least in part "attributable to changes in neighborhood composition in the wake of new investment," not necessarily improvements in the lives of existing residents. New jobs in LICs will attract job seekers from the surrounding areas, which dilute the opportunities to area residents.

Forbes (2005, 199-200) suggests that eligible census tracks contain or border areas ripe for redevelopment, for which public subsidies for revitalization may be unnecessary. Further, Rubin and Stankiewicz (2003, 26) observe that "distressed geographies, as defined through census data, also include relatively affluent downtown business areas that qualify by virtue of their sparse but largely impoverished residential populations."

In their review of the program for Congress, DeLuca et. al. (2011, 17) identified one of the unintended consequences of the NMTC program to be "gentrification through development."

While Armistead (2005b, 17) acknowledged this "broad targeting" faced criticism in the initial phase of the program, he suggested the effect may be "offset to a certain extent by factors in the competitive application process which allow applicants to score additional points for committing to make investments in areas of greater economic distress."

General Description of Project Transaction Structures…

CDEs use inter-related, multiple-step transaction structures to combine tax credit investor equity with leveraged funds into an Investment Fund (designated as a QI or QEI), and to make QLICIs in QALICBs. The GAO (GAO 14-500, 5) found that while these financial structures can increase the leveraged funding to a project, "they also increase the complexity of the financial structures by adding more parties and more transactions, which in turn reduces transparency and may increase the cost in terms of fees and other related transactions costs."

There are two simple transaction structures typically used by CDEs.[110] In the first—most basic—model, a tax credit investor (state or federal) contributes funds directly to a CDE. The Office of the Comptroller of the Currency (OCC 2013, 7) notes that these funds are "typically used to reduce the interest rate on the QLICI to the QALICB below what the market would otherwise dictate." The investor receives 39 percent of the QI (or QEI) in tax credits and, over the next seven years, any interest earned on the QLICI. At the end of the seven years, the tax credit investor's equity is returned. Transaction costs may be recovered by the CDE through deductions from the investment or by assessing fees on the QALICB: front-end or

1. Not located within a metropolitan area, the median family income for such tract does not exceed 80 percent of the statewide median family income; or
2. Located within a metropolitan area, the median family income for such tract does not exceed 80 percent of the greater of the statewide median family income or the metropolitan area median income.

[109] For a list of eligible census tracks, by state, see https://www.cdfifund.gov/research-data/Pages/default.aspx For an interactive mapping tool of eligible census tracks, see http://www.bakertilly.com/landing/nmtc-lihtc-mapping-tool

[110] GAO 14-500, 6-9. Also see OCC (2013, 7-13); GAO (GAO 10-334, 15-22) and (GAO 07-296, 18-21); Abravanel, et. al. (2013, 17-21); Lambie-Hanson (2008, 8-11); and Armistead (2005a, 13 and 20-21).

origination fees at closing, asset management fees during the compliance period, and closing fees at the end of the compliance period.

In the second—leveraged--model, tax credit investor equity (state or federal) is combined in an Investment Fund with leveraged funds: loans from commercial lenders, CDE affiliates, or QALICB affiliates. From these funds, the CDE makes a QLICI in a QALICB. Over the next 7 years, the tax credit investor receives 39 percent of the QI (tax credit investor equity and all leveraged funds) back in tax credits and any interest on their portion of the QLICI to the QALICB. If the investor's return is sufficient, they may forego their equity investment after seven years, allowing the QALICB to retain the principal (at a nominal price) from the investor's portion of the QLICI.[111] In some transactions, the CDE may retain the principal from the investor's portion of the QLICI in lieu of assessing fees on the QALICB. The leveraged lender receives interest on their portion of the QLICI, and recovers the principal or converts it into a conventional loan at the end of seven years.

Regarding the leveraged model, Abravenal, et. al. (2013, 21) observes:

> Leveraged investment structures are attractive to investors because they are able to claim tax credits on 39 percent of the combined equity and debt investment, not just the equity investment, as is the case in the non-leveraged structures. From the perspective of debt lenders who do not receive the tax credits, this investment structure may be attractive because the loan-to-value ratio is more favorable than it would have been if the debt were not being combined with the investor's equity. The more favorable ratio may compensate the leveraged lender for assuming a greater degree of risk. Although the leveraged model has the potential to attract more investors, larger investments, and higher-risk projects, the deals can become quite complex and involve multiple layers of investors. This complexity also can make it more challenging to understand the sequence of securing funding sources and to calculate the total project costs, amounts of subsidy, and fees for program evaluation purposes.

The GAO has identified two variants of the standard leveraged model. In one version, the project is combined with other public funds, but the public funds are not included in the Investment Fund and do not contribute to the QI (or QEI). In this case, the base upon which the tax credits are calculated is not increased, and the investor returns are consistent with the standard leveraged model. In a second version, public funds are included in the Investment Fund, which increases the base upon which credits are calculated and may significantly increase the amount of tax credits generated.[112]

Types of Leveraged Loans…
Banks are the primary source of leveraged loans; however, other types of financial institutions, including CDE affiliates, may provide leveraged loans. It is also possible that an affiliate or sponsor of the QALICB serves as a source of leveraged loans. In the latter case, the affiliate's own funds – compiled from cash reserves, public or private grants, fund-raising proceeds, Small Business Administration loans, or other

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[111] In their review of the Federal NMTC program, the GAO (10-334, 19) found the "original tax credit investor does not generally get their original investment back because they obtain a sufficient return on their investment from the initial sale of the tax credit equity to the CDE." The equity remaining in the QALICB "allows for greater access to conventional financing at standard LTV ratios." (OCC 2013, 9).

[112]A recent review of Florida NMDP projects revealed variations on these general transactions: QIs funding multiple QALICBs, and these QALICBs receiving QLICIs from more than one QI; recycling (reinvesting) equity and loans from QLICIs repaid before the seven-year term; and CDEs partnering on single projects, in some cases creating separate or parallel QEIs. The complexity of the transaction structures increases when more than one CDE is involved in the project, or if the transaction accesses other public funds.

loans secured by assets of the affiliate – are used to provide the leveraged loan.[113] These loans also include "Short Term Bridge Financing" (bridge loans and "one-day" loans), which provide temporary funding of the QI (or QEI). Bridge loans from a bank, project sponsor or the CDE provide sufficient equity to formalize the transaction until the equity is replaced with a subsidy from another source, such as a grant conditioned upon matching funds. "One-day loans" provide temporary equity into the QI, monetizing previously incurred project pre-development costs or the value of land.[114]

Other Sources of Gap Funding…

CDEs have other options to increase the QEI for Federal NMTC projects. Some projects combine tax credit investor equity and leverage loans with Federal Historic Rehabilitation Tax Credits (HTC), renewable-energy investment tax credits (ITC), tax-exempt bonds, and US Small Business Administration loans.[115] The Office of the Comptroller of the Currency (OCC 2013, 13) indicated that the "blending" of NMTC, HTC and ITC equity "increases the return for investors in these projects and enables transactions that previously were considered unattractive to be financed." Federal NMTC projects in states with parallel tax credit programs may combine equity generated from both programs, as occurs in Florida.

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[113] The most recent New Markets Tax Credit Coalition annual survey of member CDEs (NMTCC 2016, 12) revealed that twenty-seven percent of leveraged debt in Federal NMTC projects nationwide was owner equity.

[114] For example, a conventional lender makes a short-term loan to a QALICB affiliate, using land or other assets as collateral. The QALICB affiliate then loans the proceeds to the Investment Fund for the project QI (or QEI), which increases the pool of funds upon which tax credits are calculated. The resulting QLICI is then used to repay the conventional lender, typically within a day of receiving the QLICI. Proponents representing non-profit QALICBs state the option to use such loans enables non-profit social service entities to access New Markets Tax Credits, making such projects financially feasible when long-term financing from conventional sources is unavailable. See Comments regarding Short Term Bridge Loans and Sponsor Leverage for Non-profit Qualified Active Low-Income Community Business QALICBs, Memo from CDFI CDEs to Ms. Annie Donovan, Director, U.S. Department of the Treasury. Community Development Financial Institutions Fund, July 14, 2015. http://nmtccoalition.org/wp-content/uploads/NMTC-Working-Group-Recommendations-for-a-CDFI-Fund-FAQ-Sponsor-Leverag....pdf For-profit QALICBs can also use their own or parent company resources to access the subsidy. The major criticism of using one-day loans is that the only new capital brought to the project may be from the equity generated by NMTCs. A counterargument is that while the timing of project investments by the QALICB may be out of sync with the NMTC transaction, these investments are part of the project for which the subsidy is sought. The use of "one-day" loans in a failed project financed through the Federal NMTC and the Maine New Markets Capital Investment program recently generated controversy. See "Payday at the Mill," Portland Press Herald, 4/19/15, http://www.pressherald.com/2015/04/19/payday-at-the-mill/ , http://www.pressherald.com/2015/04/26/shrewd-financiers-exploit-unsophisticated-maine-legislators-on-taxpayers-dime/ & http://www.pressherald.com/2015/11/08/loopholes-corked-in-new-markets-tax-credit-programs/

The CDFI Fund responded, in part, with new guidelines for the 2015 Allocation cycle, to some degree restricting the use of QALICI proceeds to reimburse expenditures by a QALICB or project sponsor in repaying or refinancing debt. See "Certification, Compliance Monitoring and Evaluation, 2015 FAQs, CDFI Fund, Us Department of the Treasury. Questions 42-44, @ https://www.cdfifund.gov/Documents/NMTC%20Compliance%20Monitoring%20FAQs%20-%20(Updated%20December%202015).pdf#search=2015%20NMTC%20Application%20%26%20FAQs

[115] GAO (GAO 14-500, 9, 33-35) and (GAO 10-334, 14). In their survey of Federal NMTC projects originating in 2010-12, the GAO (GAO 14-500, 11) found "the use of other public sources of funds with the NMTC is widespread." They report "an estimated:

- Sixty-two percent of all NMTC projects received other public funding—funds from federal, state or local public sources;
- Thirty-three percent of all NMTC projects received other federal funding; and
- Twenty-one percent of all NMTC projects received funding from multiple other government programs."

State historic tax credits and state New Market Tax Credits were the most frequently leveraged state and local funds. As for Florida NMDP projects, there are indications that two projects may have used Federal HTCs in the Florida QI.

Administration of the Florida NMDP…

Only federally certified CDEs authorized to serve businesses in Florida are eligible to participate in the program.[116] In each application to DEO, the CDE must include a copy of an allocation agreement[117] from the CDFI Fund. They must also describe the "proposed amount, structure, and purchaser[118] of an equity investment or long-term debt security" and identify the proposed use of the proceeds from the QI.

Upon approval of the application, DEO issues a "Final Order" to the requesting CDE and DOR stating that the QI has been approved.[119] The statutorily available annual allocation of tax credits is prorated, if necessary, among all approved applicants.[120] CDEs then have 60 days to "issue the qualified investment in exchange for cash" to investors,[121] and then 30 days to submit an "Issuance of a Qualified Investment," which notifies DEO of the exchange.[122] DEO then issues a "Tax Credit Certification Notice" to the Investment Fund and DOR identifying the individual investors and providing a schedule for claiming the tax credits over the 7-year investment period.

CDEs monetize the tax credits by selling ownership interests in an Investment Fund[123] to eligible taxpayers – institutions with Florida Insurance Premium Tax or Corporate Income Tax liabilities. These owners (and their share of ownership) are initially identified in the CDE's Issuance of a Qualified Investment to DEO, and the subsequent Tax Credit Certification Notice. CDEs are required to notify DEO and DOR of any change in tax credit allocation among the owners of the Investment Fund, or any transfer of tax credits to subsequent purchasers of the Investment Fund.[124]

CDEs have one year[125] after the investment has been approved and tax credits have been allocated, to make a Qualified Low-Income Community Investment (QLICI) using at least eighty-five percent[126] of the proceeds from the QI in a Qualified Active Low-Income Community Business (QALICB) in a qualified Low-Income Community (LIC). Cumulative QLICIs to individual QALICBs may not exceed $10 million.[127]

Should any QLICI projects funded through the Florida NMDP program fail to comply with the conditions of the program, the tax credits may be "recaptured" from the CDE to whom the credit was initially or subsequently allocated. The DEO is responsible for noticing CDEs that a recapture is being initiated,

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[116] Section 288.9913(6), F.S. Enterprise Florida, Inc. or and entity created by EFI, may also qualify as a CDE. DEO indicates that EFI has not requested an allocation of credits.

[117] In the Federal NMTC program, the term "allocation" is used two ways: to designate the authorized QEI, the base from which tax credits are calculated; and the dollar value of the resulting tax credits.

[118] DEO stated that the "purchaser" is the tax credit investor.

[119] Program records indicate that CDEs and Florida DEO staff refer to the Florida QI as a QEI.

[120] The statutes refer to the dual nature of the allocation: DEO may not approve a cumulative amount of qualified investments that may result in the claim of more than $216.34 million in tax credits during the existence of the program, or more than $36.6 million in a single fiscal year.

[121] Section 288.9914(5), F.S. Also, Section 288.9916(1), F.S., states that credits issued through the Florida NMDP are "earned" and claimed by tax credit investors based on their ownership interest in the Investment Fund, the special purpose entity created specifically for this purpose. Ownership interest may be transferred at any stage in the life of the fund to another eligible taxpayer.

[122] Section 288.9914(6), F.S.

[123] Though a part of every NMDP transaction, the term is not defined or referred to in the program governing statutes.

[124] Section 288.9916(2)(a) and (b), F.S. Membership shares in an Investment fund may be bought by and sold to eligible taxpayers at any stage in the life of the Investment Fund.

[125] The "one year" limit is not required in Florida Law, but is consistent with federal regulations regarding the Federal NMTC program.

[126] Section 288.9920(1)(c), F.S. The remaining 15 percent may be retained as a reserve security for the leveraged lender, or used for other purposes as determined by the CDE, and retained by the CDE at the end of the seven year term of the investment.

[127] Section 288.9915(3), F.S.

allowing the CDE to cure the deficiency, and issuing a Final Order of recapture if the deficiency is not cured. This final order is provided to the CDE, the DOR and the investor that is otherwise authorized to claim the tax credits. The DOR is then responsible for recapturing the tax credits.[128]

Unused credits may be carried forward for up to 5 years.

Profile of the Florida NMDP and Project Transaction Structures…
DEO records show that through mid-2016, eighteen CDEs had qualified investments (QIs) of $579.9 million, funding an estimated 151 QLICIs in 86 Florida QALICBs.[129] Investors were awarded $215.9 million in tax credits.

Of the eighteen CDEs with qualified investments, the five CDEs with the highest cumulative credit allocations (and greatest number of projects) are:

- Advantage Capital Community Development Fund, an affiliate of Advantage Capital Partners;
- Stonehenge Community Development, an affiliate of Stonehenge Capital Company;
- Urban Development Fund (UDF), an affiliate of Aries Capital;
- Enhanced Community Development, an affiliate of Enhanced Capital; and
- U.S. Bancorp Community Development Corporation (UASBCDC).

The remaining thirteen CDEs had one or two credit allocations, most of which were awarded in the last two of the six total allocation rounds. This shows a trend toward more competition for available credits, greater distribution among CDEs, and perhaps increased project diversity.

With a few exceptions, most of the estimated 151 Florida NMDP QLICIs were in the form of loans.[130] QLICIs were used to fund the acquisition, construction, and renovation of facilities; purchase new equipment and inventory; refinance debt; reimburse parent companies; provide operating capital for QALICBs; and fund shareholder distributions.

Since its implementation in 2010, the Florida NMDP has provided funding to eighty-six projects (all projects to date) in 24 counties throughout the state. Twenty-four of these projects are in the manufacturing sector, 16 are in health care and social assistance, and 11 are in wholesale trade. The program also funded projects in the arts, entertainment and recreation industries (8),[131] hospitality (5),[132] office administration (4), education (4), and communications industries (2).[133]

Most of the tax credits were used to satisfy insurance premium tax liabilities, while the remainder were used to satisfy Corporate Income Tax liabilities.

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[128] Section 288.9920, F.S.
[129] Two CDEs used 16 QIs to fund multiple QALICBs – both initial and subsequent investments – while the other 10 responding CDEs typically use single QIs for individual projects.
[130] Responses to EDR's survey of CDEs indicated that one CDE make 4 equity investments in 4 different QALICBs, 3 of which were in combination with loans.
[131] To include: Cade Museum; Glazer Children's Museum; Tampa Bay History Center; Cocoa Expo Sports; The Florida Aquarium; The Tamp Museum of Art; Community Maritime Park in Pensacola (Blue Wahoos minor-league baseball stadium); and The Amalie Arena in Tampa.
[132] To include the Holiday Inn Hotel in Miami, Le Meridian Hotel in Tampa, the Orlando Historic Aloft Hotel, Aracle Foods (caterers), and a Sonic Restaurant, which was intended to be used as a regional training center.
[133] To include the Orlando Telephone Company and CA Daytona Holdings (Daytona Beach News-Journal and other regional media).

EDR surveyed CDEs participating in the Florida NMDP to obtain additional information regarding the state expenditures in these projects, the number of new and retained jobs, the amount of capital investments and foreign investment associated with these projects, and total project costs. Through this survey, EDR was also able to evaluate how project transactions are structured to facilitate "stacking" of state and federal credits. Twelve of the 18 CDEs responded to the survey, representing 74 of the 86 projects (QALICBs) funded to date. The individual surveys regarding these 74 QALICBs generated the following data:

- A total of $160.4 million in Florida NMDP tax credits;
- 2,421 new and retained jobs;
- A total of $374.6 million in capital investment (new construction and purchase of equipment);
- A total of $113.3 million in Federal NMTC credits; and
- $952.4 million in reported total projects costs.

An estimated sixty-four percent of projects in the review were "stacked" in some fashion with Federal NMTCs, either using the Florida QI or the Federal NMTC QEI. This "stacking" of credits enables both Florida and Federal tax credits to be generated from Florida-based projects, with most contributing all or a portion of the tax credit equity to QLICI.[134] Some projects also included additional funding from public or private grants, or from the QALICB or its affiliates.

EDR's survey of CDEs showed overall consistency among the transaction structures used in Florida NMDP projects. All transactions included funds from leveraged lenders – banks, QALICB affiliates, CDE affiliates, or other financial institutions. Some leveraged loans were "one-day" loans, primarily from QALICB affiliates.

The survey also revealed variations in transaction structures among CDEs. One CDE used single QIs to fund multiple QALICBs, and some of these QALICBs received QLICIs from more than one QI. This CDE also recycled or reinvested residual tax credit investor equity (and leveraged lender funds) from QLICIs repaid before the seven-year term, into QLICIs for new or previously funded projects. A number of CDEs partnered on single projects, in some cases creating separate QEIs from the initiating CDE. In most of those cases, partnering increased the overall funding for the project and enabled CDEs to use surplus tax credits before they expired.

The following Transaction Diagrams (FIGURES 1-6) illustrate how Federal NMTCs are stacked with Florida NMDP credits in Florida NMDP projects. These are simple diagrams in that they do not show all of the special purpose entities created to facilitate the transaction. As such, they are illustrative, and do not represent the complexity found in many of these arrangements.

For comparative purposes, these transaction diagrams incorporate the following assumptions:

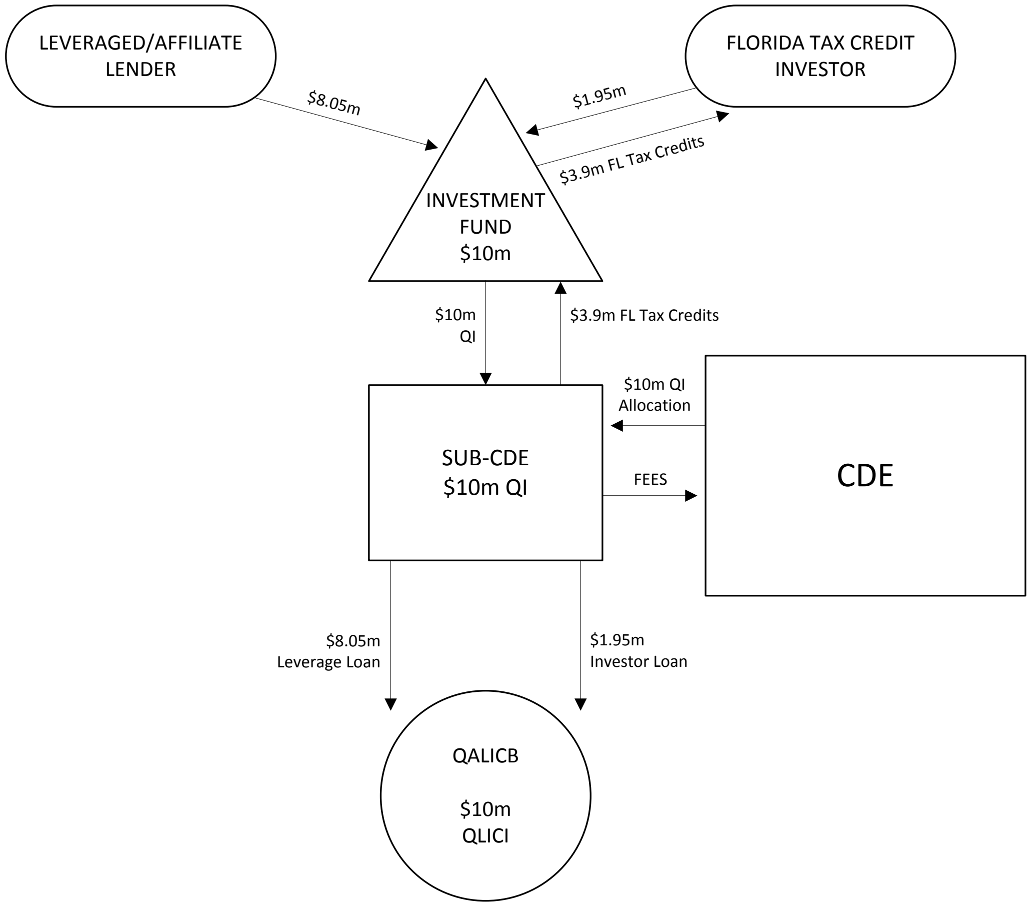
- $10 million Florida NMDP QI;
- 1:2 investment-to-credit ratio for the Florida NMDP tax credit (50-cents per $1 of tax credit);
- 1:5 Florida NMDP tax credit equity to QI ratio, with the remainder from leveraged loans and Federal tax credit equity;
- No additional public or private equity outside the QI is included in the transaction structure;

[134] For all but four of the forty-seven stacked projects identified in the survey, it appears that at least a portion of the Federal tax credit equity was included in the QLICI.

- No leveraged loans are included in the Federal NMTC program QEI;
- 1:1.25 investment-to-credit ratio for the Federal NMTCs (80-cents per $1 of tax credit);
- No deduction from QI or QEI, which may be up to 15 percent as authorized in Florida and Federal law;

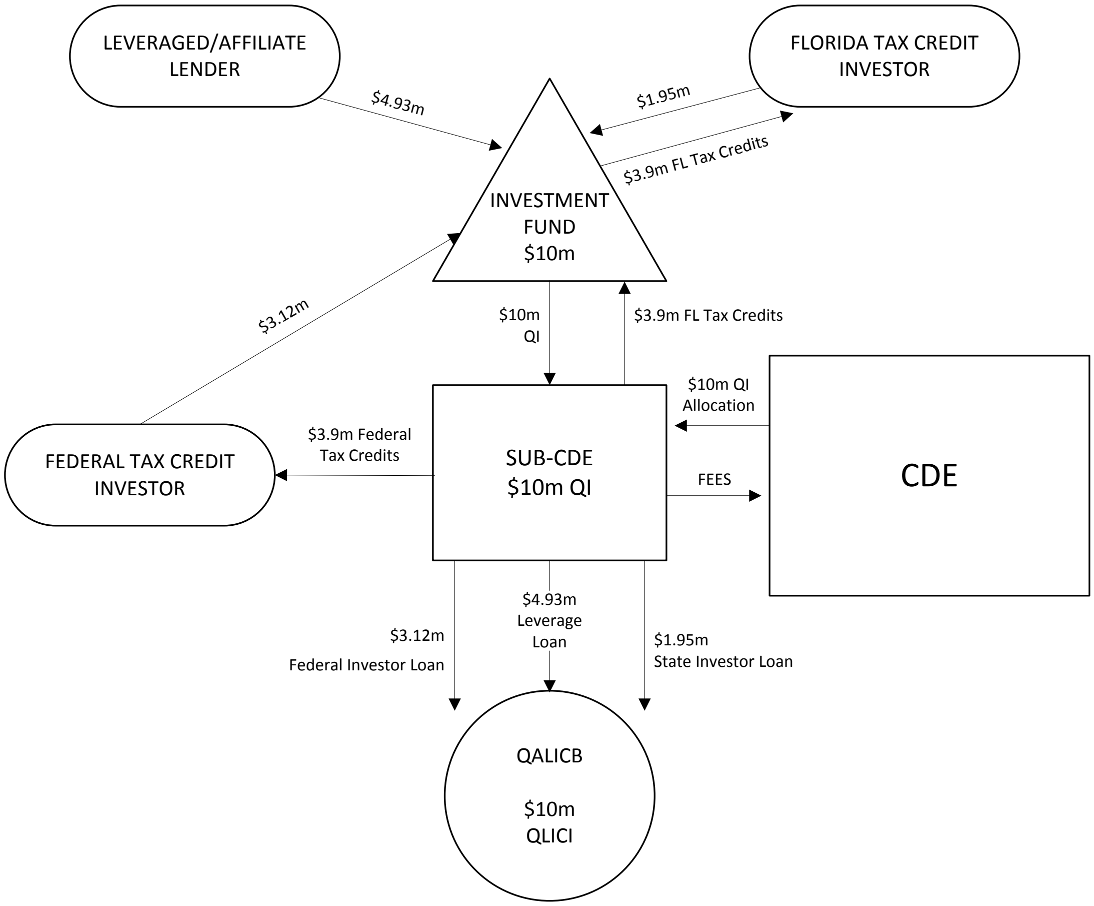
For the purpose of this illustration, the leveraged lenders (banks, QALICB affiliates, CDE affiliates, or other financial institutions) are unspecified, and no assumptions are made regarding the imposition of annual interest, fees or charges on the QALICB. Further, the diagrams do not address multiple CDE projects, which require much more complex transaction structures. Finally, the dual nature of the allocation should be kept in mind. DEO may not approve a cumulative amount of qualified investments that result in the claim of more than $36.6 million in a single fiscal year. In this regard, the term allocation can refer to the underlying QI or to the tax credit equivalent.

FIGURE 1
Florida NMDP QI Only



CDE – Community Development Entity
QI – Qualified Investment, Florida NMDP
QEI – Qualified Equity Investment, Federal NMTC program
QALICB – Qualified Active Low-Income Community Business
QLICI – Qualified Low-Income Community Investment

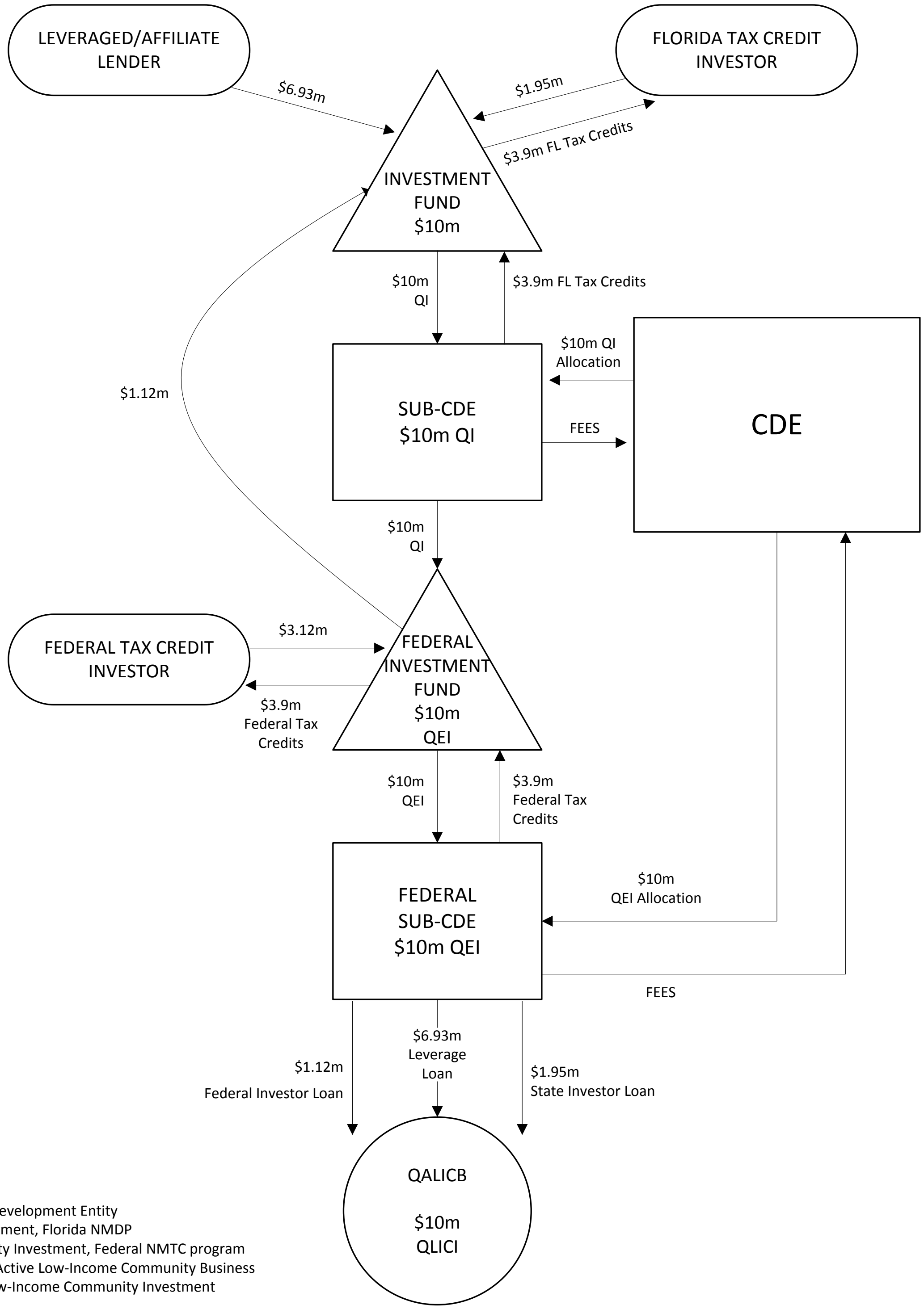
FIGURE 2
Federal NMTC Program Tax Credit Equity Included in Florida NMDP QI,
With all or a portion of QI designated as Federal Investment NMTC Program QEI



CDE – Community Development Entity
QI – Qualified Investment, Florida NMDP
QEI – Qualified Equity Investment, Federal NMTC program
QALICB – Qualified Active Low-Income Community Business
QLICI – Qualified Low-Income Community Investment

FIGURE 3

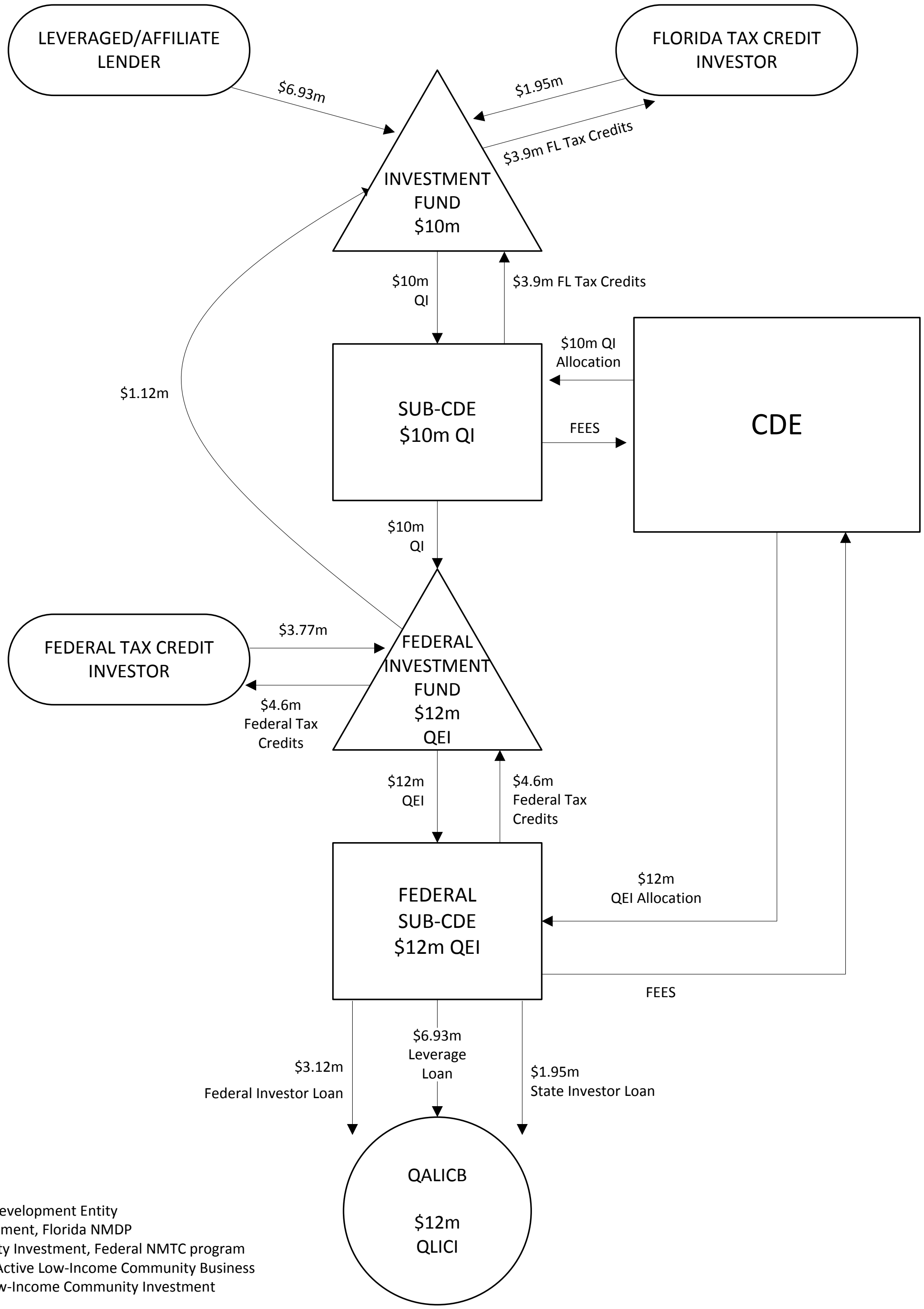
Federal NMTC Program Tax Credit Equity Included in Florida NMDP QI,
With all or a portion of QI transferred to Federal Investment Fund for a QEI,
Without Additional Federal Equity Added to QEI



CDE – Community Development Entity
QI – Qualified Investment, Florida NMDP
QEI – Qualified Equity Investment, Federal NMTC program
QALICB – Qualified Active Low-Income Community Business
QLICI – Qualified Low-Income Community Investment

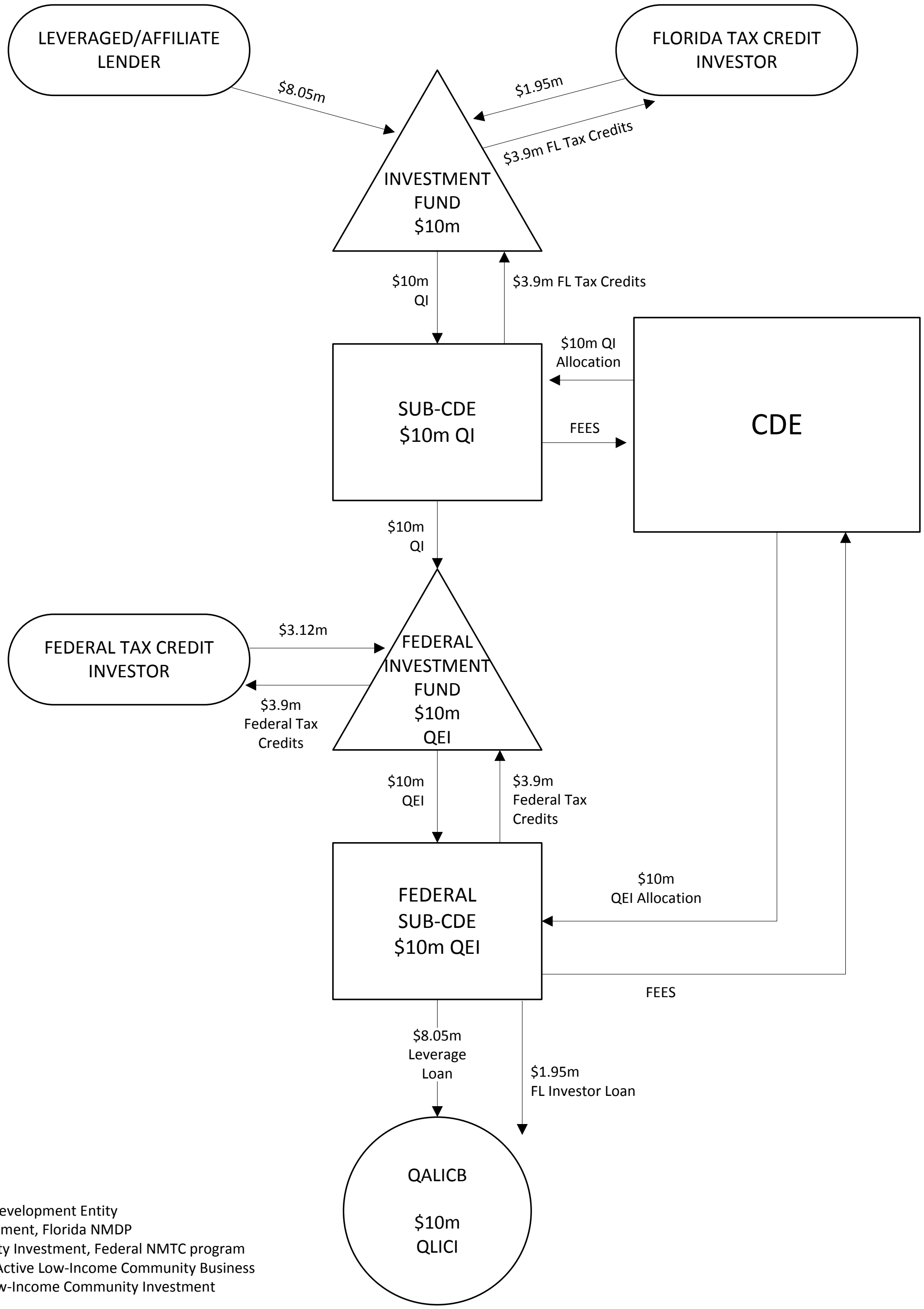
FIGURE 4

Federal NMTC Program Tax Credit Equity Included in Florida NMDP QI, With all or a portion of QI transferred to Federal Investment Fund for a QEI, With Additional Federal Equity Added to QEI



CDE – Community Development Entity
QI – Qualified Investment, Florida NMDP
QEI – Qualified Equity Investment, Federal NMTC program
QALICB – Qualified Active Low-Income Community Business
QLICI – Qualified Low-Income Community Investment

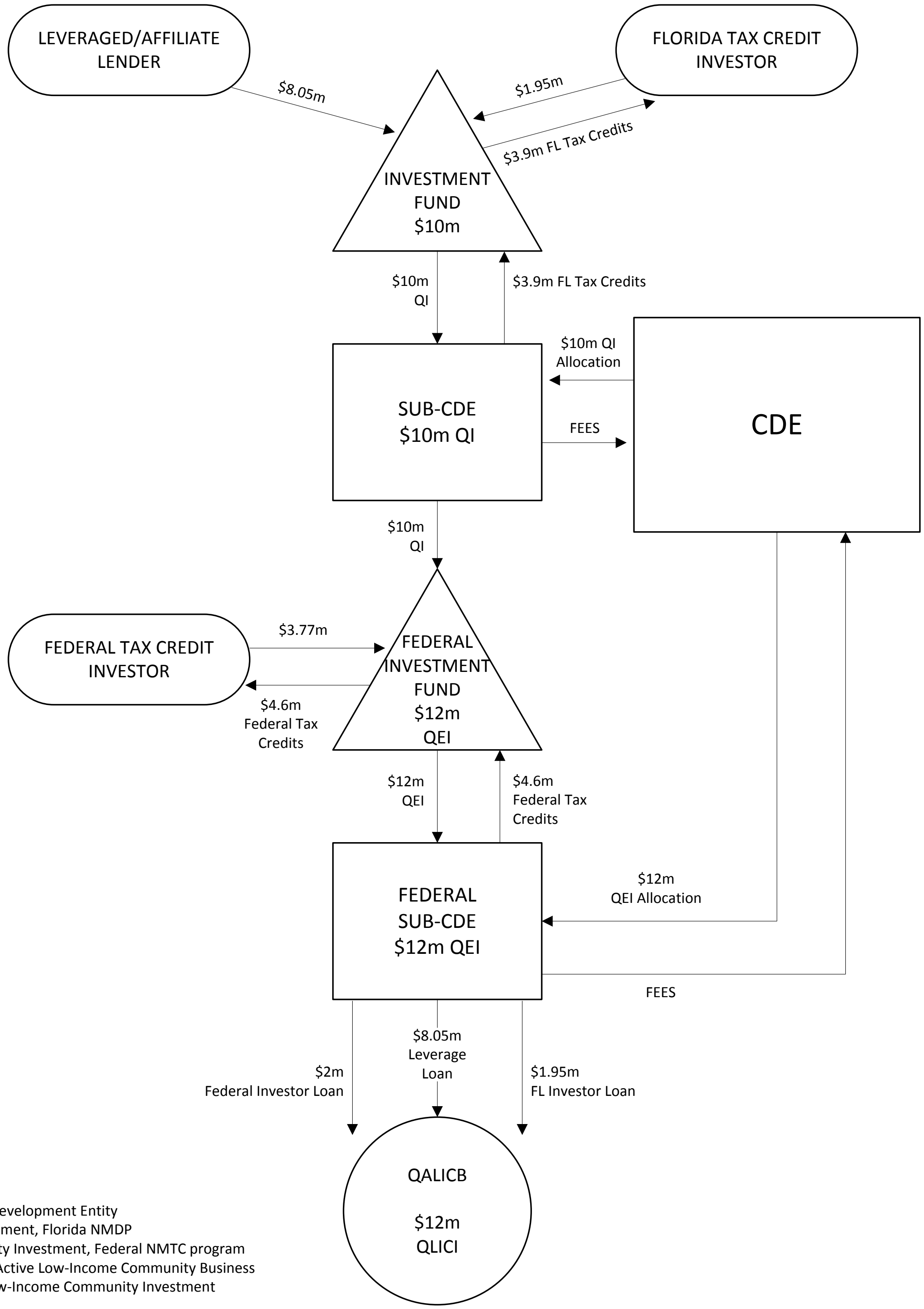
FIGURE 5
Florida NMDP QI,
With all or a portion of QI transferred to Federal Investment Fund for a QEI,
Without Additional Federal Equity Added to QEI



CDE – Community Development Entity
QI – Qualified Investment, Florida NMDP
QEI – Qualified Equity Investment, Federal NMTC program
QALICB – Qualified Active Low-Income Community Business
QLICI – Qualified Low-Income Community Investment

FIGURE 6

Florida NMDP QI,
With all or a portion of QI transferred to Federal Investment Fund for a QEI,
With Additional Federal Equity Added to QEI



CDE – Community Development Entity
QI – Qualified Investment, Florida NMDP
QEI – Qualified Equity Investment, Federal NMTC program
QALICB – Qualified Active Low-Income Community Business
QLICI – Qualified Low-Income Community Investment

Evaluation Considerations

The "But-For" Assertion & the Florida NMDP…

Federal program proponent assertions aside,[135] it is unclear whether NMTC funded projects are "likely not to have taken place in the absence" of the tax credit equity.[136]

Shortly after the initial implementation the Federal NMTC program, the GAO noted (GAO-03-233R, 3) that evaluating the "but-for" assertion is "difficult to determine because it is difficult to know what program participants and others who invest in low-income communities would have done if the program did not exist." While the GAO (10-334, 25 & 41) later identified various means CDEs use to apply the "but-for" standard, they concluded that "evidence we gathered was inconclusive in corroborating that procedures used by CDEs target funding only to projects that would not have otherwise been done." In the end, they concluded that "our analysis does not allow us to determine the extent to which these projects and their resulting benefits to low-income communities would be realized absent the NMTC." Further, the Federal NMTC program has no legislative or regulatory requirements to address the potential substitution of tax credit equity for other available investment resources.[137]

In their review of samples from 2,031 Federal NMTC projects initiated from the program's inception through 2007, Abravanel, et. al. (2013, vi, xii-xiii & 103-104) concluded that:

> Based on the evidentiary review, it can reasonably be concluded that between 3 and 4 of every 10 early-year projects would likely not have proceeded without NMTCs; about 1 of every 10 projects would likely have proceeded without NMTCs, but probably in a different location or on a delayed schedule. About 2 of every 10 projects did not show convincing evidence of needing NMTCs to come to fruition. Information was inconclusive for about 3 of every 10 projects.

In their assessment of the Federal NMTC program for the US Congress, Deluca et. al. (2011, 16) concluded that "it is impossible to tell whether these investments would have occurred without the tax credit."

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[135] The New Markets Tax Credit Coalition (NMTCC 2015, 10) reports:

> "…CDEs screen each project with a "but-for" test to ensure whether the NMTC is indeed necessary for the project to move forward. The "but-for" test limits the amount of NMTC-generated financing to the amount required for financial feasibility. The NMTC typically provides "last-in" gap financing, meaning it is the last financing secured to make a project viable. CDEs and investors evaluate the sources and uses of available capital, the business plan of the enterprise in question, and its impact on the low-income community to determine how much NMTC financing is needed to complete the project and maximize community impact."

[136] See GAO (GAO 10-334, 8-9 and 25-26). Armistead (2005a, 22) characterizes it this way: "The central issue of the NMTC is whether the overall effect of the credit is to make economically marginal deals feasible, as it was intended to do, or whether instead the effect is to sweeten deals that would have been done anyway… The credit is supposed to make marginally doable projects into doable projects."

[137] Abravanel, et. al. (2010, 67-72). Notwithstanding this lack of program requirements regarding potential substitution, Abravanel, et. al. (2010, 69-70, citing Armistead (2005b, 22-25)) notes "the program's competitive allocation process, mandatory allocation agreements, use of distress criteria, and system of reporting are all designed to encourage the funding of projects that would not have proceeded in some form but for the tax credits." Also see Rubin and Stankiewicz (2003, 22-26), who in their early examination of the Federal NMTC program identified a combination of factors that increased the likelihood that tax credits would be use to "supplant rather than supplement" project funding, or "double-dip" with other state and federal programs. Regarding the incidence of bundling NMTCs with equity from other public programs, see GAO (07-296, 35-36) and GAO (14-500, 11-12).

An additional issue diminishes the certainty of the "but-for" assertion. There are indications that tax credits may not affect choice of project location by some QALICBs. Abravanel, et. al. (2013, ix) found that for the majority of early-year Federal NMTC projects, "QALICBs had selected their sites before seeking financing. And, in some cases, site selection was not an issue because NMTC financing was used for business expansion or working capital, with no plans to rehabilitate or develop property."

Finally, there are indications that the Federal NMTC program redirects private investment rather than increasing overall investment.[138] While encouraging "new or increased investment in low-income areas"[139] is the goal of the program, intra-state shifting of investments does not result in a net economic gain to the state economy.

To the extent that Florida NMDP and projects mirror the Federal NMTC program and projects, these observations may also apply to the Florida NMDP.

Conclusion…

Three concepts are important to the analysis of the Florida NMDP and influence analysis of the state's return on investment:

- The "But-For" Assertion.
- Florida Market and Resource Dependent Projects.
- Proportional Attribution.

The resultant ROI is relatively low at 0.2, indicating that the state does not fully recover its costs. However, the Legislature may determine that other policy goals are being accomplished. For example, a review of the Florida NMDP also shows that many constituencies benefit from the program:

- **Low-Income Communities** (LICs) potentially benefit from geographically targeted redevelopment, and area residents may benefit from the temporary jobs stemming from the capital investments and permanent jobs created by benefiting QALICBs. Area residents may also benefit from the social services and cultural opportunities available through funded projects.
- **QALICBs** are able to access low-cost patient capital, leverage private loans, bundle NMDP tax credit equity with other public incentives, use their own funds to leverage tax credit equity from both the Florida and Federal programs, and potentially retain residual investor equity at the end of the loan term.
- **Social Service Providers** that may be unable to secure conventional financing can use affiliate funds to leverage tax credit equity.
- **Investors** may secure relatively low-risk investments with sufficient return on investment to forgo their equity investment at the end of the seven year term.
- **CDEs,** both for-profit and non-profit affiliated, are able to achieve the primary purposes for which they were established, and generate sufficient income through deductions, fees, and interest payments. In lieu of fees, some for-profit affiliated CDEs retain the tax credit generated equity at the end of the seven year term. Bank-affiliated CDEs benefit when they act as CDE, investor and leveraged lender, as well as use their participation in the program to satisfy Community Reinvestment Act (CRA) requirements.
- **Leveraged Lenders** can reduce their risks because the tax credit equity increases the loan-to-value ratio of the QLICI.

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[138] GAO (GAO 07-296, 4; 41-42); Gurley-Calvez (2009); and Hickes and Faulk (2012, 7).
[139] Abravanel, et. al. 2013, p. v.

- **Local Governments** have an additional source of funding to facilitate area revitalization, and upgrading or expanding social services delivery systems.
- **Florida** may gain a competitive advantage in accessing Federal NMTC allocations relative to prospective projects in the thirty-six states without similar state programs.[140]
- To the extent that Florida NMDP investments result in net new capital investments and jobs, **Florida's economy** also benefits from the program. To the extent that state revenues from these capital investments and jobs exceed the Florida's expenditures in the program, there is a positive ROI on the State's investment.

[140] Thirteen other states have state NMTC programs: Alabama, Alaska, Arkansas, Illinois, Kentucky, Louisiana, Maine, Mississippi, Nebraska, Nevada, Ohio, Oregon, and Utah. The Missouri program sunset in 2010. Most of these programs have similar application, qualifying, reporting and recapture provisions. Alaska's program functions as a loan or loan guarantee program.
A few states have restrictions as to the type of QALICB businesses eligible for loans, but Florida may be unique in that is limits QALICBs to specific targeted industries. The credit award ranges from twenty-four percent to 58 percent of the leveraged Qualified Investment, with six other states mirroring Florida's award of 39 percent. Arkansas and Utah require some form of project economic impact statements. Three states require periodic review of the program: Florida, Nebraska and Nevada.

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