

Florida: Economic Analysis

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Economic Analysis

Economic analysis performs a specific purpose:

- To rank programs on the basis of their financial or economic benefits to the State of Florida, and
- To facilitate the allocation of scarce budget resources to the most productive areas, based on various assumptions and guiding principles.

This type of analysis will not tell you whether a program is well-founded in academic theory, how it can be improved, or whether it represents an appropriate policy or function of the state. In this regard, the individual analyses accept current design and administration as givens.



Legislative Recognition

Chapter No. 2010-101, Laws of Florida, created section 216.138, Florida Statutes, which states:

(1) The President of the Senate or the Speaker of the House of Representatives may request special impact estimating conferences to evaluate legislative proposals based on tools and models not generally employed by the consensus estimating conferences, including cost-benefit, return-on-investment, or dynamic scoring techniques, when suitable and appropriate for the legislative proposals being evaluated.



Use in Economic Development

288.005 Definitions.—As used in this chapter, the term:

(1) “Economic benefits” means the **direct, indirect, and induced gains in state revenues as a percentage of the state’s investment**. The state’s investment includes state grants, tax exemptions, tax refunds, tax credits, and other state incentives. **[ROI using Dynamic Analysis]**

288.904 Funding for Enterprise Florida, Inc.; performance and return on the public’s investment.—

(6) As part of the annual report required under s. 288.906, Enterprise Florida, Inc., shall provide the Legislature with information quantifying the **return on the public’s investment** each fiscal year. Enterprise Florida, Inc., in consultation with the Office of Economic and Demographic Research, shall hire an economic analysis firm to develop the methodology for establishing and reporting the return on the public’s investment and in-kind contributions as described in this section. The Office of Economic and Demographic Research shall review and offer feedback on the methodology before it is implemented. **[Traditional ROI]**

Return-on-Investment

- Policy analysis technique to evaluate the efficiency of an investment
- Results are expressed in percentages or ratios of the financial gains less the investments, divided by the investment amount (alternative calculations are sometimes used --- perspective is important)
- Non-monetary variables are generally not included
- Analyses are usually multi-year
- Costs and benefits projected over time are adjusted for the time value of money, e.g., net present value
- It is possible for a project or program to have a negative return on investment but still be desired (for example, to subsidize an essential activity that wouldn't otherwise have occurred)

Potential Best Usage: Discrete investments with subsequent payoffs where general societal benefits are of negligible concern (e.g., Toll Roads) or to compare the efficiency of a number of different investments (ranking).

Cost-Benefit

- Policy analysis technique to compare the total expected benefits to the total expected costs of a policy change or program in order to see if the benefits outweigh the costs
- Non-monetary variables, such as quality of life, and opportunity costs, such as the best alternative use given up, should be included and quantified into monetary terms if at all possible
- Calculations usually include a specific time dimension
- Costs and benefits projected over time should be adjusted for the time value of money, e.g., net present value
- Results often expressed as a ratio (benefits / costs)

Potential Best Usage: Appropriations or discrete tax changes which may have a significant societal cost or benefit, e.g., Everglades Restoration; feasibility of new projects or plans

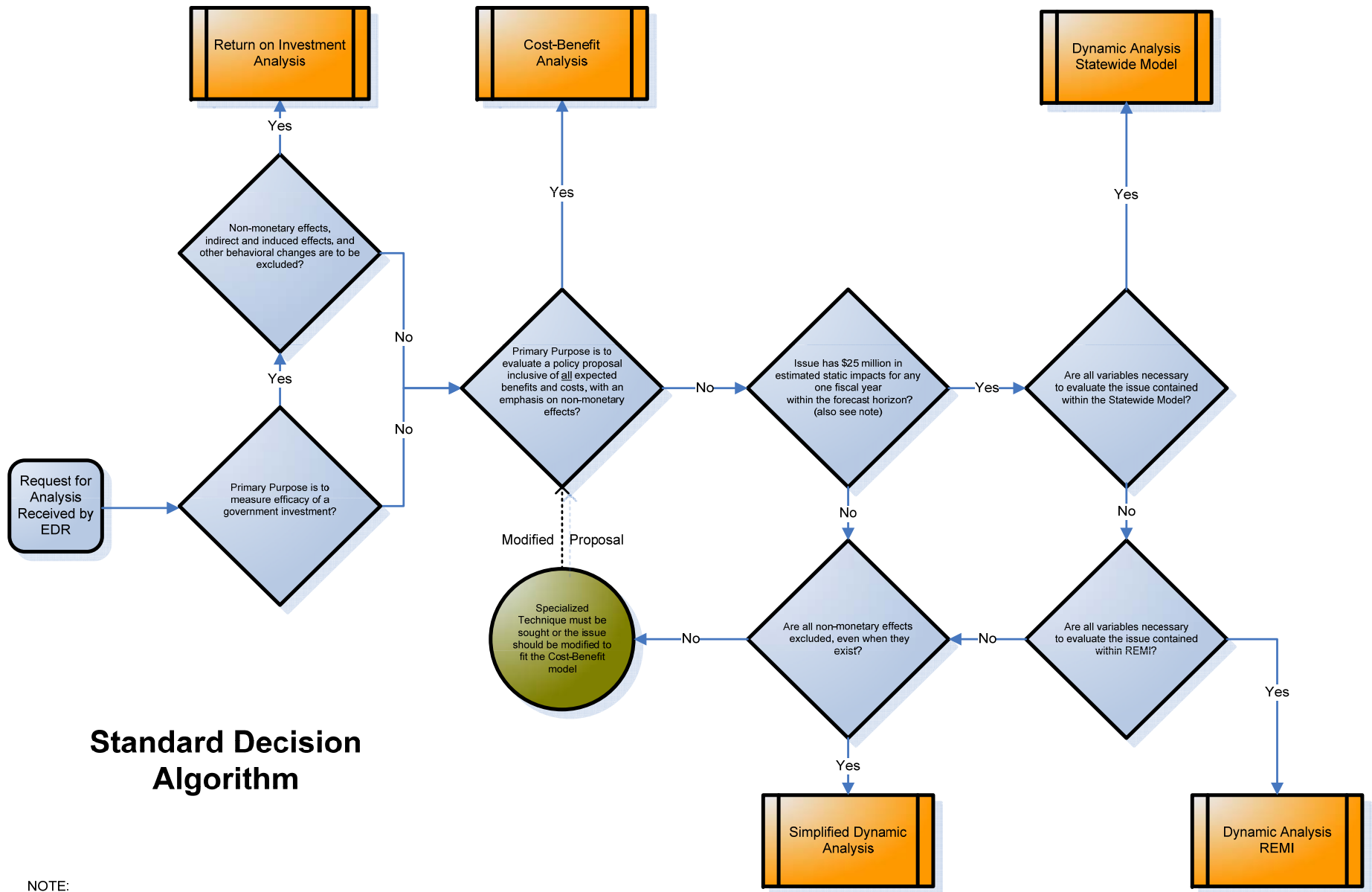
Dynamic Scoring

- Policy analysis technique to evaluate the direct, indirect and induced economic impacts of a policy change
- Predicts and quantifies the impact of changes in fiscal policy (revenue and budget)
 - Projections are relative to a forecast of current policy (baseline)
- Forecasts the behavioral changes of taxpayers or consumers to the proposed policy change
 - Assumes all taxpayers act in a manner that minimizes taxes and maximizes income
 - Assumes all taxpayers or consumers understand the full implications of the proposed policy change and act in their own best interests
- Quantifies the macro-economic impact of the behavioral changes
- Analyses are multi-year

Potential Best Usage: Larger initiatives that will likely have significant statewide economic impacts and will likely change taxpayer or consumer behavior, e.g., elimination of Highway Safety Fees or elimination of a core state program

Economic Analysis Techniques Matrix

Effects	Return on Investment	Cost Benefit	Dynamic Analysis (Statewide Model)
Monetary	✓	✓	✓
Non-Monetary		✓	Limited
Indirect / Induced		Limited	✓
Behavioral Changes		Social Welfare	Economic
Ranking of Alternative Public Investments	Narrowly Defined Using Uniform Criteria	Broadly Defined Using Multiple Approaches	Economically Defined
Size of Proposal or Scope of Review	Any Size	Any Size	Initially: \$25M or more Later: \$10M or more



Standard Decision Algorithm

NOTE:
Failing the first condition, does the issue have a significant effect on macroeconomic variables from within a particular segment of the economy?