



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 specified 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.

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 212.096, 220.181, and 220.182;
- 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 fourth evaluation of these programs.³ This review period (or "window") covers Fiscal Years 2018-19, 2019-20 and 2020-21.

Explanation of Return on Investment

In this report, the term "Return on Investment" (ROI) is synonymous with economic benefit and is used in lieu of the statutory term. This measure does not address issues of overall effectiveness or societal benefit; instead, it focuses on tangible financial gains or losses to state revenues.

The ROI is developed by summing net 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:

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

¹ Section 288.0001, F.S. Currently, 19 programs are listed.

² Section 288.005(1), F.S.

³ The previous reports and several presentations related to the findings of previous reports can be found at EDR's website: <http://edr.state.fl.us/Content/returnoninvestment/>

Since EDR's Statewide Model⁴ 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. State revenues are less than they would have been in the absence of the program. This typically occurs 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 would mean 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.

Overall Results and Conclusions

As shown in the table below, four programs in this review period have negative ROIs after performing the traditional analyses. A number of factors contribute to these ROIs, and they are explained in detail within each program review section. Moreover, EDR conducted new analyses that included longer periods for two programs. A new analysis was conducted that spans twelve years for the Qualified Target Industry Tax Refund after receiving corrected data from the Department of Economic Opportunity. EDR also updated the ROI for the Capital Investment Tax Credit to be inclusive of a nine-year period. The programmatic ROI and state payments for these two programs are included in the chart below.

A return on investment could not be calculated for three of the eight programs, which is further explained in each program section. This is the first time a return on investment could not be calculated the QACF program because all of the payments to projects came from a previously established escrow account. These funds cannot be considered in the review because they were actually removed from the state budget during a prior period. Similarly, the IIP program had no state payments during the review period, precluding its ROI calculation just as occurred in 2020.

Finally, the Enterprise Zone program sunset on December 31, 2015. For this report, EDR did not revisit the return on investment of this program since it has effectively expired, and there is no reason to

⁴ See the Methodology section for a description of the Statewide Model.

believe the prior conclusions have changed. Please see Appendix Two for more information on the program and prior EDR analyses.

ROI Results by Program	2023	State Payment	2020	State Payment	2017	State Payment	2014	State Payment
Capital Investment Tax Credit*	-0.58	\$187.8m	-0.22	83.4m	-0.49	\$60.2m	N/A	N/A
Qualified Target Industry**	0.23	\$42.2m	0.66	\$27.7m	0.84	\$15.1m	-0.27	\$18.9m
Brownfield Bonus Redevelopment Tax Refund	-0.89	\$1.4m	1.51	\$0.7m	1.7	\$0.7m	1.1	\$1.5m
High-Impact Sector Performance Grant	-0.79	\$13.4m	-0.85	\$13.6m	0.05	\$2.5m	0.7	\$1.0m
Quick Action Closing Fund	N/A	N/A	0.84	\$48.6m	0.6	\$78.7m	1.1	\$32.2m
Innovation Incentive Program	N/A	N/A	N/A	N/A	0.1	\$60.0m	0.2	\$204.0m
Enterprise Zone Program	N/A	N/A	N/A	\$26.1m	N/A	\$41.8m	-0.05	\$115.2m
New Markets Development Program	-0.98	\$44.8m	-0.79	\$93.9m	0.18	\$64.3m	N/A	N/A

Programmatic ROI's and State Payments for Select Programs		
ROI Results by Program	ROI	State Payment
Capital Investment Tax Credit (2012-21)*	-0.48	\$331.32m
Qualified Target Industry Tax Refund (2010-21)**	0.34	\$103.86m

* Revised using a different methodology and updated data

** Revised using updated data

Data and Methodology

The Florida Department of Economic Opportunity (DEO) is the primary source of program project information. For the Capital Investment Tax Credit and New Markets Development (NMDP) programs, internal files from the Department of Revenue (DOR) provide an additional source of information. For the NMDP, EDR also relied on data from the Community Development Entities (CDEs), who have the primary role in implementing the NMDP. DEO provided project information and DOR provided tax credit data.

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 the state subsidy after taking account of what would have occurred in the absence of that particular investment. EDR employs a number of approaches to isolate the new economic activity, including an assessment of the "but-for" assertion and culling⁵ 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 are strategies to derive a credible estimate of the program's real return to the state.

Excluding projects from the New Markets Development and Enterprise Zone programs, DEO provided data for 594 unique projects with payments or credits taken in the review period. One hundred and five of the 594 projects were combined or "bundled" with other incentives (17.7%).⁶ The table below shows the number and value of payments by incentive for the review period.

		BFR	CITC	HIPI	QTI	Grand Total
Payments or Credits Taken	Nominal \$(M)	1.41	187.79	13.42	42.18	244.80
Count of Payments or Credits Taken by Incentive		16	18	9	551	594

⁵ 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.

⁶ 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.

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.

ECONOMIC EVALUATION OF ECONOMIC DEVELOPMENT INCENTIVES

Statewide Model

EDR uses the Statewide Model to evaluate the economic impact of the programs under review. The Statewide Model is a dynamic computable general equilibrium (CGE) model that simulates Florida's economy and government finances.⁷ The Statewide Model is enhanced and adjusted each year to reliably and accurately model Florida's economy. These enhancements include updating the base year the model uses as well as adjustments to how the model estimates tax collections and distributions.⁸

Among other things, the Statewide Model 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 equations⁹ 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 shocked¹¹ using static analysis to develop the initial or direct effects attributable to the projects funded by the program. In this analysis, direct effects are essentially the changes experienced by the businesses receiving the grants. Generally, the annual direct effects (effectively, negative shocks) took the form of:

- Removal of the incentive payments from the state budget, with corresponding awards to businesses as subsidies to production.

⁷ The statewide economic model was developed using GEMPACK software with the assistance of the Centre of Policy Studies (CoPS) at Victoria University (Melbourne, Australia).

⁸ Reports prior to January 1, 2017 have 2009 as the base year. All reports since have used FY 2015-16 as the base year.

⁹ These equations represent the behavioral responses to economic stimuli, as well as changes in economic variables.

¹⁰ The business reactions simulate the supply-side responses to the new activity (e.g., changes in investment and the demand for labor).

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.

- Exclusion of capital investments or residual capital benefits related to the projects.
- Decreased 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 program, as well as the supply-side responses to the new activity, where the supply-side responses are changes in investment and labor demand 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.

All of these effects can be measured by changes (relative to the baseline) across a wide array of economic measures. Required measures for this report include the number of jobs created, population, real output, consumption by households and government, real and nominal personal income, and real gross domestic product, all of which are included in the model results. EDR's calculation of the Return on Investment (ROI) uses the model's estimate of net state revenues and expenditures based on changes in these measures.

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 all data provided was complete and accurate. The data was not independently audited or verified by EDR.
2. The analysis assumes that given the time span under review, applying discount rates would not prove material to the outcome.
3. The analysis assumes that any state expenditure made for a program 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.
4. The analysis assumes that businesses treated the incentives as subsidies. The subsidies lowered the cost of production for each individual firm.
5. The analysis assumes the relevant geographic region is the whole state, not individual counties or regions. 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.

The following assumptions are specific to the programs under review:

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 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.
4. The analysis assumes that the 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.
5. 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.
6. 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.

Key Terms

In the pages that follow, diagnostic tables describing the composition and statistics of the reviewed programs precede the discussion. Key terms used in the tables are described below:

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

Total Net State Revenues \$(M) – Represents the overall change in state revenue caused 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 2021-22 \$(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 2021-22 \$(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 2021-22 \$(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 2021-22 \$(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, including survivors from the previous year, births, special populations, and three types of migrants (economic, international, and retired).

CAPITAL INVESTMENT TAX CREDIT

Project Summary Statistics

Total Number of CITC Projects	18	100.0%
Industry Composition		
Manufacturing	8	44.4%
Information	1	5.6%
Finance & Insurance	3	16.7%
Professional, Scientific, & Technical Services	5	27.8%
Health Care & Social Assistance	1	5.6%
Number of Bundled CITC Projects	17	94.4%
Bundled Composition		
CITC, HIPI	4	22.2%
CITC, QACF	3	16.7%
CITC, QTI	5	27.8%
CITC, QACF, QTI	3	16.7%
CITC, BFR, QACF	1	5.6%
CITC, HIPI, QTI	1	5.6%
Industry Composition		
Manufacturing	8	44.4%
Information	1	5.6%
Finance & Insurance	3	16.7%
Professional, Scientific, & Technical Services	5	27.8%
Number of Single CITC Projects		
Industry Composition		
Health Care & Social Assistance	1	5.6%

All Capital Investment Tax Credit Projects Used in Analysis

	2018-19	2019-20	2020-21	Total
Anticipated CIT Credits in Window*	\$114,801,147	\$129,504,546	\$133,912,522	\$378,218,215
Actual CIT Credits Used in Analysis	\$53,220,652	\$64,456,620	\$70,111,200	\$187,788,472
Confirmed Capital Investment	\$8,129,200	\$1,341,902	\$0	\$9,471,102
Average Annual Wage of Projects	\$97,518	\$96,938	\$97,677	
Statewide Average Annual Wage	\$52,137	\$55,085	\$59,760	
Percentage of Statewide Average Annual Wage	187.04%	175.98%	163.45%	

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

Economic and Fiscal Impacts

Statewide Economic Model Impact Projections of the Capital Investment Tax Credit Program

		FY2019	FY2020	FY2021	Total
State Payments in the Window	Nominal \$ (M)	53.22	64.46	70.11	187.79
Total Net State Revenues	Nominal \$ (M)	(26.32)	(35.54)	(47.39)	(109.25)
Return-on-Investment by Year		-0.49	-0.55	-0.68	
Return-on-Investment for the 3 year period					-0.58

		FY2019	FY2020	FY2021	Total	Average per Year
Personal Income	Nominal \$ (M)	1,754.8	1,952.9	1,767.3	5,474.9	1,825.0
Real Disposable Personal Income	Fixed 2021-22 \$ (M)	1,621.9	1,780.9	1,578.8	4,981.6	1,660.5
Real Gross Domestic Product	Fixed 2021-22 \$ (M)	2,098.0	2,278.6	1,926.0	6,302.6	2,100.9
Consumption by Households and Government	Fixed 2021-22 \$ (M)	1,577.7	1,734.2	1,506.1	4,818.0	1,606.0
Real Output	Fixed 2021-22 \$ (M)	3,209.6	3,507.5	2,951.7	9,668.8	3,222.9

		FY2019	FY2020	FY2021	Minimum	Maximum	Average per Year
Total Employment	Jobs	2,064	2,356	1,522	1,522	2,356	1,981
Population	Persons	9,986	12,194	14,402	9,986	14,402	12,194

Program Description...

Florida created the Capital Investment Tax Credit (CITC) program in 1998 to encourage businesses in high-impact sectors to build or expand facilities within Florida. These sectors are designated by the Department of Employment Opportunity (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.¹² The business can use

¹² The unused credits can be carried forward under certain conditions established by the Florida Department of Revenue in an administrative rule published in January, 2019. The unused credits are limited to those projects that have at least \$100 million in confirmed capital investment. They can be used in the ten years following the end of the twenty year period. For further

the credits to reduce its corporate income or insurance premium tax liability; however, no credits have been taken against the insurance premium tax.¹³ 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)

The following graph shows all confirmed capital investments for all projects since inception of the program.¹⁴



information on the conditions see <https://www.flrules.org/gateway/readFile.asp?sid=0&tid=21293263&type=1&file=12C-1.0191.doc>.

¹³ 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>.

¹⁴ This graph is different from the Confirmed Capital Investment graph in the 2020 report in that it includes the additional years in the current review period as well as updates to reported values for prior years.

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 presumed enhanced activity associated with the ongoing operations of the firm, both during and after the completion of the capital investment. The ability to measure these benefits is partially limited by the structure of the program. DEO is only required to certify the level of capital investment and new jobs created in the year that the business requests a CITC credit. If the business has no liability against which to take a credit, there is no certification of activity in the period – meaning any benefits generated by that activity are 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 discussed later should be taken into account when looking at the measured ROI for this program.

There are currently thirty-four active projects that applied for, were approved, and met the requirement of a twenty-five million dollar investment for the CITC program. Of those thirty-four, 26 projects were eligible to claim CITC credits within the FY 2018-19 through FY 2020-21 review period. Of those 26, 18 actually claimed a CITC credit within the review period. These are the 18 projects considered in EDR’s analysis of ROI for this review period.¹⁵

The industrial classification of these eighteen projects are as follows: 8 were in manufacturing; 1 was in information services (NAICS 51); 3 were in finance and insurance (NAICS 52); and 5 were in professional, scientific, and technical services (NAICS 54); and 1 was in health care and social assistance (NAICS 62). Also, 17 of these projects were bundled with other incentive awards: 5 received HIPI incentives; and 9 received QTI incentives, and 7 also received QACF incentives.

To estimate the ROI of the CITC program, EDR compared the total value of the CITC credits claimed by these eighteen projects within the three-year review period (the state “costs”) to the economic benefits that those costs brought about. The direct benefits (the benefits input into the statewide model) are the projects’ capital investment and wages paid, for each fiscal year within the review period. Specifically, for each of the projects and for each fiscal year, its capital investment and its wages paid are apportioned between the CITC program and all other incentive programs that the project received based on the relative values of the incentives (1), and then apportioned between the CITC credits that were claimed within the three-year review period and the remainder of the CITC credits initially available to the project (2). The rationale for the apportionments is that the project’s capital investment and wages paid were generated by the total value of the bundled incentives, so the CITC credits claimed within the three-year review period only resulted in a portion of the total economic benefits.

The explanation of the costs is simple: the eighteen projects claimed a total of \$187.8 million in CITC credits within the three-year review period.

The explanation of the benefits that the costs brought about is more complicated because of the two apportionments, (1) and (2) above. Consider, for now, just the capital investment part of the benefits. First, the eighteen projects had a total of \$196.9 million in confirmed capital investment over the three-year window. Second, by applying the first apportionment, the value is reduced to \$194.0 million. Third, by applying the second apportionment, the value is further reduced to \$9.5 million. The same process is applied to the 14,188 jobs attributable to the projects, resulting in an

¹⁵ There were an additional five projects that were inactive, met the \$25,000,000 investment threshold but did not claim any credits. Two of the five have previously claimed credits.

average value of 1,151 jobs per year (with an average wage of \$90,781). These jobs are used as an input prior to initiating the model run.

As mentioned, the average annual wage for the jobs created was \$90,781, which was about 163 percent of the statewide average. In the 2020 report, the values were similar – \$88,039 and 180 percent, respectively.

The economic activity associated with the capital investment and wages paid relative to the program's cost generated a net decrease in state revenues of \$109.25 million over the entire review period. This results in an ROI for these projects of -0.58. The ROI for the program was 0.27 in 2020 and 0.43 in 2017, as originally reported.

The difference in the current ROI from those in the prior periods reflects the fact that prior analyses failed to adjust corporate receipts by the amount of the corporate credits claimed. Adjusting both 2020 and 2017 accordingly would have resulted in net revenues and the corresponding ROI of -\$58.2 million and -0.73 in 2020 and -\$37.8 and -0.57 in 2017. Thus the current ROI is very similar to that of prior review periods. For a nine-year analysis of the CITC program, see Appendix Three.

Despite negative net revenues to the state, Florida's economy still benefited from the new capital investment, wages, jobs and output generated by these projects. These projects generated an average of \$1,660 million a year in inflation-adjusted disposable personal income and \$2,101 million a year in real gross domestic product.¹⁶ On average there were 1,981 more jobs economy-wide each year. Note that the economy-wide increase of 1,981 jobs (which accounts for the direct, indirect, and induced effects) is greater than the direct increase of 1,151 jobs—a net additional gain of 730 in the rest of the economy.

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. If all of the capital investment were credited to the CITC program, the ROI would have been slightly 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 \$133 million in capital investment that took place five 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.

¹⁶ These inflation-adjusted figures are in FY 2021-22 dollars.

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 eighteen projects analyzed in this report, there were \$378.2 million in credits that could have been taken within the three-year window, meaning there were \$190.4 million in unused credits. Of the eighteen projects, there are eight which can carry forward their unused credits of \$153.2 million into the 10 years after the end of the project. There are additional credits from prior periods that can be carried forward as well. Thus, the potential exists for \$1.9 billion in credits to be carried forward and taken at some time in the future (the vast majority, \$1.6 billion, could be within the next ten years). Given the level of credits taken to date, the likelihood is that many of the credits carried forward will never be used. To date, only 15.7% of potential credits have been taken. If this same percentage is applied to credits carried forward that still implies approximately \$300 million in unused credits might be taken in the coming years.

Overall, the 2023 results are not significantly different from those reported in 2020 in terms of the ROI. At that time, the nine projects in the CITC program generated an ROI of -0.73, based on the actual credits taken. The current analysis contains nine of the same projects, plus an additional nine.¹⁷ 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 2020 projects are now \$4.08 million higher. This alone would have reduced the original ROI. Conversely, the CITC credits for the 2017 projects are now \$6.55 million lower.
- New projects in the current analysis made greater use of the credits available to them. They had sufficient corporate tax liability to claim 49.7 percent of their available credits (\$187.8 million out of \$388.1 million). This is higher than the prior two review periods. The change is likely due to the state's current position in the business cycle relative to the prior review periods. It is unclear how the 2017 federal tax law changes will affect future utilization of credits.
- There was a lower level of capital investment in the review period for the current analysis. In the 2017 and 2020 analyses, there was \$70.2 million and \$15.7 million in capital investment, respectively, compared to just \$9.5 million in the current analysis.
- There was also a lower level of capital investment in the five years prior to the review period in the current analysis than in the 2017 and 2020 analyses. In the 2017 and 2020 analyses, \$518 million and \$299 million, respectively, was reported compared to \$133 million in the current review.

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."

¹⁷ The 2022 analysis also contains eight of the projects included in the 2017 review period and all of the projects included in the 2014 review period.

There are 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. Second, only a percentage of the liability can be offset (as determined by the tier the business falls under).

Since the CITC program's inception, sixty-eight projects have applied, been approved, and are active CITC projects. Of the 68 projects, 26 have confirmed capital investment of at least the \$25 million threshold, with a total confirmed capital investment over the life of the program of over \$4.4 billion. There were 18 projects that utilized the credit within the review period based on potential job and capital investment milestones. Only twenty of the twenty-six businesses have taken the credit since its inception. Of the over \$2.51 billion in potential credits¹⁸ that could have been taken by qualifying businesses to date, only \$460,949,640 has been taken, or 18.3 percent of the total potential. That is, there are still approximately \$1.89 billion in outstanding credits that could be claimed in future years.

¹⁸ The \$2.51 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	232	100.00%
Industry Composition		
Abrasion testing machines manufacturing	1	0.43%
Absorbers, gas, heavy gauge metal, manufacturing	1	0.43%
Acceleration indicators & systems components, aerospace type, manufacturing	2	0.86%
Accountants' (i.e., CPAs) offices, certified public	2	0.86%
Acoustical engineering consulting services	1	0.43%
Acoustics testing laboratories or services	1	0.43%
Actuarial consulting services (except insurance actuarial services)	2	0.86%
Actuarial services, insurance	1	0.43%
Adhesive tape, medical, manufacturing	5	2.16%
Adrenal medicinal preparations manufacturing	2	0.86%
Advertising agencies	1	0.43%
Advertising periodical publishers, exclusively on Internet	3	1.29%
Aerosol cans, light gauge metal, manufacturing	1	0.43%
Agents, shipping	4	1.72%
Agreement corporation (except international trade financing)	1	0.43%
Agricultural (i.e., crop, livestock) insurance carriers, direct	3	1.29%
Agricultural consulting services	1	0.43%
Agricultural credit institutions, making loans or extending credit (except real estate, sales financing)	2	0.86%
Agriculture research & development laboratories or services (except biotechnology research & development)		1.72%
Air boat building	4	1.72%
Airborne radio communications equipment manufacturing	1	0.43%
Air-conditioners, room, merchant wholesalers	1	0.43%
Air-conditioners, unit (e.g., motor home, travel trailer, window), manufacturing	1	0.43%
Aircraft assemblies, subassemblies, & parts (except engines) manufacturing	2	0.86%
Aircraft conversions (i.e., major modifications to system)	3	1.29%
Aircraft engine & engine parts (except carburetors, pistons, piston rings, valves) manufacturing	3	1.29%
Aircraft ferrying services	3	1.29%
Airline reservation services	1	0.43%
Airport lighting transformers manufacturing	1	0.43%
Alarm system monitoring services	1	0.43%
Ambulance bodies manufacturing	1	0.43%
Amplifiers (e.g., auto, home, musical instrument, public address) manufacturing	1	0.43%
Amplifiers, magnetic, pulse, & maser, manufacturing	1	0.43%
Amusement machines, coin-operated, manufacturing	1	0.43%
Angle valves, industrial-type, manufacturing	1	0.43%
Antibiotics merchant wholesalers	3	1.29%
Application hosting	1	0.43%
Applications software programming services, custom computer	12	5.17%
Applications software, computer, packaged	3	1.29%
Appraisal (except real estate) services	2	0.86%
Arc lamp units, electrotherapeutic (except infrared, ultraviolet), manufacturing	1	0.43%
Architectural wall panels, precast concrete, manufacturing	1	0.43%
Art goods merchant wholesalers	6	2.59%
Artichokes, canned, manufacturing	1	0.43%
Assembly plants, heavy trucks, & buses on chassis of own manufacture	1	0.43%
Automated clearinghouses, bank or check (except central bank)	3	1.29%
Automobile finance leasing companies	1	0.43%

Awnings, rigid plastics or fiberglass, manufacturing	1	0.43%
Baby foods, canned, merchant wholesalers	1	0.43%
Babysitting bureaus (i.e., registries)	1	0.43%
Banking, investment	3	1.29%
Barge sections, prefabricated metal, manufacturing	1	0.43%
Bassinets, reed & rattan, manufacturing	1	0.43%
Beams, wood, made from logs or bolts	2	0.86%
Benches, park-type (except concrete, stone), manufacturing	1	0.43%
Biotechnology research & development laboratories or service in botany	2	0.86%
Blood pressure screening facilities	1	0.43%
Bonded warehousing, general merchandise	2	0.86%
Box lunches (for sale off premises) manufacturing	2	0.86%
Brakes & parts for railroad rolling stock manufacturing	1	0.43%
Bridge & trestle parts, wood, treating	1	0.43%
Broadcast media rating services	2	0.86%
Cable program distribution operators	1	0.43%
CAD (computer-aided design) systems integration design services	4	1.72%
Casings, sausage, non-rigid plastics, manufacturing	1	0.43%
Cathode ray tubes (CRT) manufacturing	1	0.43%
Centralized administrative offices	55	23.71%
Cheese curls & puffs manufacturing	1	0.43%
Clearinghouses, commodity exchange or securities exchange	1	0.43%
Closed-end investment funds	1	0.43%
Computer disaster recovery services	5	2.16%
Computer systems facilities (i.e., clients' facilities) management & operation services	2	0.86%
Consumer finance companies (i.e., unsecured cash loans)	1	0.43%
Custard, frozen, manufacturing	1	0.43%
Customs consulting services	15	6.47%
Dental insurance carriers, direct	4	1.72%
Developing & producing prototypes for complete guided missiles & space vehicles	2	0.86%
Diapers, disposable, made from purchased paper or textile fiber	1	0.43%
Environmental consulting services	1	0.43%
Flat glass (e.g., float, plate) manufacturing	1	0.43%
General-line groceries merchant wholesalers	2	0.86%
Payroll processing services	1	0.43%
Precision turned product manufacturing	1	0.43%
Tortillas manufacturing	1	0.43%
Travel agencies	1	0.43%
Aluminum forgings made from purchased metals, unfinished	1	0.43%
Ammunition, sporting, merchant wholesalers	1	0.43%
Alkali manufacturing	1	0.43%
Adding machines manufacturing	1	0.43%
Bracelets, precious metal, manufacturing	1	0.43%
Gas turbine generator set units manufacturing	1	0.43%
Air flow controllers (except valves), air-conditioning & refrigeration, manufacturing	1	0.43%

Bundled Project Summary Statistics

Number of Bundled QTI Projects	46	100.00%
Bundled Composition		
QTI/QACF	29	63.04%
QTI/CITC	11	23.91%
QTI/CITC/QACF	3	6.52%
QTI/CITC/HIPI	2	4.35%
QTI/CITC/HIPI/QACF	1	2.17%

Economic and Fiscal Impacts

Statewide Economic Model Impact Projections of the Qualified Target Industry Tax Refund Program for FY 2018-19 to FY 2020-21

		FY2019	FY2020	FY2021	Total
State Payments in the Window	Nominal \$ (M)	12.59	14.48	15.11	42.18
Total Net State Revenues	Nominal \$ (M)	4.10	2.83	2.81	9.73
Return-on-Investment by Year		0.33	0.20	0.19	
Return-on-Investment for the 3 year period					0.23

		FY2019	FY2020	FY2021	Total	Average per Year
Personal Income	Nominal \$ (M)	622.25	622.13	621.75	1,866.13	622.04
Real Disposable Personal Income	Fixed 2021-22 \$ (M)	433.74	425.57	416.95	1,276.26	425.42
Real Gross Domestic Product	Fixed 2021-22 \$ (M)	651.88	635.10	620.50	1,907.48	635.83
Consumption by Households and Government	Fixed 2021-22 \$ (M)	373.58	363.92	353.83	1,091.33	363.78
Real Output	Fixed 2021-22 \$ (M)	981.40	960.48	942.57	2,884.46	961.49

		FY2019	FY2020	FY2021	Minimum	Maximum	Average per Year
Total Employment	Jobs	905	1,040	1,235	905	1,235	1,060
Population	Persons	6,848	7,488	8,032	6,848	8,032	7,456

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 to \$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, 232 projects received a payment from the QTI program. This is more than double the number of projects that received payments during the 2020 review period. The sharp increase in the number of projects may be due to a “stacking” effect where multiple contracts under

DEO review entered into compliance during the review period. The increase could also be explained by policy changes that emphasized the QTI program during a prior gubernatorial administration.¹⁹ Governor Scott heavily prioritized QTI and frequently worked with DEO’s public-private partnerships to market QTI and other incentives in order to attract businesses to the State. The number of projects is not anticipated to increase in subsequent reviews after reaching its peak level of activity during this review period.

Eleven projects in Florida market or resource dependent industries were culled from the analysis. For culled projects, the cost to the state was included in the analysis but the associated economic benefits (jobs, wages, and output) are removed.

Of the remaining 221 projects, 46 projects also received payments from other incentive programs. These “bundled” projects are treated uniquely in the model. The jobs, wages, and investments are 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 complete set of 232 projects received state payments totaling \$42.2 million from QTI during the review period. DEO reports there was an estimated 4,040 new project jobs created with an average annual wage of \$51,958. The average wage level is lower than reported in 2017 and 2020. The economic activity associated with the projects is an increase in state revenues of \$9.7 million.

The return on investment for these projects is 0.23, meaning the State recovered \$0.23 for every dollar spent.

During the review process, DEO discovered a data error that was consistent throughout all review periods. EDR analyzed the corrected dataset for all review periods to ensure that the results for this review period are compared with analogous data in prior periods. EDR’s review yielded new results for all years, from the first review in the 2014 to the 2020 review. The chart below compares the ROIs reported in previous periods to the new ROIs calculated from the new data set:

Report Year	Old ROI	New ROI
2014	6.40	-0.27
2017	4.40	0.84
2020	4.34	0.66

Please see Appendix Four for more information regarding prior review periods.

This decrease in ROI from the 2020 review is due to a greater concentration of awards in industries with lower multipliers (i.e. Professional, Scientific and Technological Services compared to Manufacturing).²⁰ Industries in Manufacturing have higher output multipliers, meaning these businesses have a stronger effect on the economy from the purchase of raw materials, purchase of equipment, and the sale of completed products into the market. The table below displays examples of NAICS codes and their FY 2020-21 multiplier in the Management, Other Professional and Technical Services, and Manufacturing

¹⁹ Office of Policy and Budget, “Governor Rick Scott’s FY 2014-15: It’s Your Money Tax Cut Budget,” <https://www.flgov.com/wp-content/uploads/2014/01/IYMTCB.pdf>, page 9

²⁰ There are two sets of multipliers that come into play. The first multiplier translates wages into compensation. The second translates compensation into output.

categories. Management and Other Professional and Technical Services have lower multipliers (1.9 and 2.5 respectively) than the Manufacturing occupations.

Industry Output Multiplier Comparison			
NAICS Code	NAICS Description	CGE Category	Multiplier (FY 20-21)
551114	Centralized administrative offices	Management	1.894
541211	Accountants' (i.e., CPAs) offices, certified public	OthProfTech	2.479
334111	Electronic Computer Manufacturing	CompElecMan	10.632
335222	Household Refrigerator & Home Freezer Manufacturing	ElecEquipMan	8.469
336411	Aircraft Manufacturing	OthTranspMan	9.588
336412	Aircraft Engine & Engine Parts Manufacturing	OthTranspMan	5.990

Between the two review periods, the industry makeup slightly shifted away from manufacturing industries (-6.5% from 2020 to 2023) and toward financial and business services industries (+6.5% from 2020 to 2023). Additionally, projects were culled from the analysis, as they did not meet the “but-for” assertion, meaning the culled projects included Florida market or resource dependent industries. The output and capital investments from these projects were removed from the model; however, the state’s payments remained. These two factors contributed to the slight decrease in ROI from 0.66 in the 2020 review to 0.23 in the current review.

Conclusion...

Section 288.106, F.S., requires the QTI program be designed to attract business in high growth, recession resistant, market independent and high wage industries such as manufacturing and professional services. Enterprise Florida, Inc., and the Department of Economic Opportunity designate these industries as Target Industries. Generally, the target industries more strongly influence the economy than the class of all industries because they tend to have the highest multipliers.

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 Florida was an estimated \$49,000 in Fiscal Years 2018-19 through 2020-21. Wages associated with the QTI projects included in this review exceeded the required 115 percent threshold. In most years, wages were greater than 140 percent of the statewide average annual wage. Higher than average wages generate higher project outputs, which results in more revenue for the state.

Though the QTI program requires higher annual average wages, the majority of industries receiving the credits have low production inputs. The high concentration of industries with low multipliers and payments to industries that are Florida market dependent resulted in an ROI of less than one for this review period.

BROWNFIELD REDEVELOPMENT BONUS TAX REFUND

Project Summary Statistics

Total Number of Brownfield Redevelopment Projects	2	100%
Aircraft Manufacturing	1	50%
Administrative Support	1	50%

Economic and Fiscal Impacts

		FY2019	FY2020	FY2021	Total
State Payments in the Window	Nominal \$ (M)	0.64	0.44	0.33	1.41
Total Net State Revenues	Nominal \$ (M)	(0.48)	(0.43)	(0.35)	(1.26)
Return-on-Investment by Year		(0.75)	(0.98)	(1.06)	
Return-on-Investment for the 3 year period					-0.89

		FY2019	FY2020	FY2021	Total		Average per Year
Personal Income	Nominal \$ (M)	5.37	(0.25)	(0.99)	4.13		1.38
Real Disposable Personal Income	Fixed 2021-22 \$ (M)	6.01	0.62	0.39	7.02		2.34
Real Gross Domestic Product	Fixed 2021-22 \$ (M)	4.12	(1.43)	(2.08)	0.60		0.20
Consumption by Households and Government	Fixed 2021-22 \$ (M)	4.99	(1.26)	(2.54)	1.19		0.40
Real Output	Fixed 2021-22 \$ (M)	10.27	(1.07)	(2.13)	7.06		2.35

		FY2019	FY2020	FY2021	Minimum	Maximum	Average per Year
Total Employment	Jobs	44	(11)	(9)	(11)	44	8
Population	Persons	0	14	14	0	14	9

Program Description...

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.²¹ 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 – QTI with Brownfield Bonus – provides a bonus grant of \$2,500 per job created for approved QTI projects located in Brownfield areas.²² 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 analysis of QTI projects and excluded from the Brownfield ROI review.

²¹ Section 17, Ch. 2013-29 and s. 18 Ch. 2013-42, Laws of Florida

²² Section 288.107(2)(a), F.S.

Enacted in 2000, a separate stand-alone incentive²³ 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.”²⁴

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

Legislation enacted in 2013 changed the Brownfield Redevelopment Bonus Tax Refund Program (BFRD) requirements. Projects 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.²⁵ Prior to 2013, projects qualified if the development occurred anywhere within a Brownfield area.

Analysis and Findings...

The 1997 Brownfields Redevelopment Act provided incentives for the private sector to redevelop abandoned, idled, or under-used industrial and commercial properties where expansion or redevelopment is complicated by real or perceived environmental contamination. As stated in the act, the Legislature found that:

“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 for productive urban purposes which will help prevent the premature development of farmland, open-space areas, and natural areas, and reduce public costs for installing new water, sewer, and highway infrastructure.”²⁶

This intent provision also addressed environmental justice, community blight and environmental equity issues. EDR’s analysis of ROI does not account for these non-economic features.

In this review period, eight projects received state incentives related to BFRD projects. Of the eight projects, six projects were culled from the analysis, as they were Florida market or resource dependent industries; in this case, the Retail Trade and Hotels and Motels industries. For these projects, the cost to the state was included in the analysis but the associated economic benefits (jobs, wages, and output) were not considered. The remaining two projects were in the Administrative Support and Other Transportation Manufacturing.

The analysis shows a return on investment of -0.89 for the Brownfield Redevelopment Bonus Tax Refund Program, which is notably lower than any of the previous reviews. The ROI was calculated based on a net loss of \$1.26 million in tax revenue from the Brownfield projects during the review period. The Gross Domestic Product increased by an annual average of \$0.20 million.

²³ Section 288.107(2)(b), F.S.

²⁴ Section 288.107(1)(d)2., F.S.

²⁵ 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.

²⁶ Section 2, ch. 97-277, L.O.F., codified in s. 376.78(1), F.S.

Conclusion...

Though the ROI is now negative, the purpose of the Brownfields Redevelopment Act is to facilitate the redevelopment of areas with contamination or blight. The ROI for the program in each period has been based on a very limited number of projects. Even though, the ROI was stable through the previous periods, the results turned negative in this period due to the introduction of a new project that – given its bundling with a large CITC project – had very little output attributed to the BFRD credits. The low number of projects in all of the reviews and extensive use of bundling make the results fluctuate over time.

It is unclear if the ROI would be materially different if the program involved a larger number of projects. Further, compared to other economic incentive programs, the capital investment is low, and there is no minimum wage requirement. Both of these factors tend to lower the ROI for the program.

HIGH-IMPACT SECTOR PERFORMANCE GRANT

Project Summary Statistics

Total Number of HIPI Projects	4	100%
Amplifiers, magnetic, pulse, & maser, manufacturing	1	25%
Broadcasting networks, television	1	25%
Centralized administrative offices	1	25%
Contact lenses manufacturing	1	25%

Bundled Project Summary Statistics

Number of Bundled HIPI Projects	4	100.00%
Bundled Composition		
HIPI, CITC	2	50%
HIPI, CITC, QTI	2	50%

Economic and Fiscal Impacts

		FY2019	FY2020	FY2021	Total
State Payments in the Window	Nominal \$ (M)	6.20	6.75	0.47	13.42
Total Net State Revenues	Nominal \$ (M)	(5.14)	(5.89)	0.49	(10.54)
Return-on-Investment by Year		(0.83)	(0.87)	1.06	
Return-on-Investment for the 3 year period					(0.79)

		FY2019	FY2020	FY2021	Total		Average per Year
Personal Income	Nominal \$ (M)	1.81	32.25	37.94	72.00		24.00
Real Disposable Personal Income	Fixed 2021-22 \$ (M)	1.72	29.66	33.72	65.10		21.70
Real Gross Domestic Product	Fixed 2021-22 \$ (M)	1.15	33.03	37.66	71.84		23.95
Consumption by Households and Government	Fixed 2021-22 \$ (M)	1.29	35.63	41.97	78.89		26.30
Real Output	Fixed 2021-22 \$ (M)	3.25	62.19	66.78	132.22		44.07

		FY2019	FY2020	FY2021	Minimum	Maximum	Average per Year
Total Employment	Jobs	9	174	142	9	174	108
Population	Persons	0	18	104	0	104	41

Program Description...

Enacted in 1997, the High-Impact Sector Performance Grant²⁷ (HIPI) is designed to encourage the growth of high-impact sector facilities. The program awards grants of at least \$500,000 for businesses that create jobs and provide 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).

²⁷ Section 288.108, F.S.

Analysis and Findings...

During the review period, four projects received payments totaling \$13.42 million. Each of the four projects also received a Capital Investment Tax Credit (CITC) award. Two projects were further bundled with Qualified Target Industry Tax Refunds (QTI).

The return on investment for the HIPI Program is -0.79. This means the program does not recover any portion of the state's investment, and state revenues are less than they would have been in the absence of the program. The previous reported ROI's in 2014, 2017, and 2020 were 0.70, 0.05, and -0.85 respectively. The bundling of HIPI with CITC further undermines HIPI's ROI since the relative size of the CITC awards abate the contributions from HIPI. The low number of projects in all of the reviews and extensive use of bundling make the results unstable.

For this review period, DEO reported that HIPI produced 2,463 jobs, with an average confirmed wage of \$82,904. DEO also reported that the confirmed capital investment for these projects was \$1 billion, half of which is coming from one project. However, all of the projects are bundled with other state incentives. The HIPI portion of the projects account for only a weighted average of 2.4 percent of the total incentive packages, and as a result, only 2.4 percent of the total output and capital investment is apportioned to HIPI. After the data is run through the model, HIPI is responsible for total output of \$132.22 million over the review period.

Conclusion...

Though the ROI for the HIPI Program is negative, it is important to note the limited number of projects associated with the program. However, due to the consistency of bundling HIPI with other incentive programs, it is unlikely that the ROI would be materially different if the program involved a larger number of projects.

QUICK ACTION CLOSING FUND

Project Summary Statistics

Industry Composition

Total QACF Projects	54	100%
Acceleration indicators & systems components, aerospace type, manufacturing	1	2%
Acoustical engineering consulting services	1	2%
Adrenal medicinal preparations manufacturing	2	4%
Aeronautical equipment & supplies merchant wholesalers	1	2%
Aerosol cans, light gauge metal, manufacturing	1	2%
Agriculture research & development laboratories or services (except biotechnology research & development)	3	6%
Air boat building	1	2%
Aircraft assemblies, subassemblies, & parts (except engines) manufacturing	2	4%
Aircraft conversions (i.e., major modifications to system)	4	7%
Aircraft engine & engine parts (except carburetors, pistons, piston rings, valves) manufacturing	2	4%
Aircraft lighting fixtures manufacturing	1	2%
Alkaline cell storage batteries (i.e., nickel-cadmium, nickel-iron, silver oxide-zinc) manufacturing	1	2%
Alloying purchased aluminum metals	1	2%
Amplifiers, magnetic, pulse, & maser, manufacturing	2	4%
Anesthesia apparatus manufacturing	1	2%
Angle valves, industrial-type, manufacturing	2	4%
Anti-scald bath & shower valves, plumbing, manufacturing	1	2%
Apparel findings & trimmings cut & sewn from purchased fabric (except apparel contractors)	1	2%
Applications software programming services, custom computer	1	2%
Applications software, computer, packaged	1	2%
Automated clearinghouses, bank or check (except central bank)	1	2%
Banking, investment	1	2%
Beams, wood, made from logs or bolts	2	4%
Brakes & parts for railroad rolling stock manufacturing	1	2%
CAD (computer-aided design) systems integration design services	1	2%
Centralized administrative offices	5	9%
Chemical milling job shops	1	2%
Construction lending	1	2%
Corporate credit unions	1	2%
Customs consulting services	8	15%
Payroll processing services	1	2%

Number of Bundled QACF Projects	38	100.00%
QACF/QTI	30	78.95%
QACF/CITC	2	5.26%
QACF/CITC/QTI-BROWN	1	2.63%
QACF/CITC/QTI	3	7.89%
QACF/CITC/HIPI/QTI	1	2.63%
QACF/BFRD/CITC	1	2.63%

Economic and Fiscal Impacts

		FY2019	FY2020	FY2021	Total		Average per Year
Total Net State Revenues	Nominal \$ (M)	20.10	19.45	18.05	57.60		19.20
Personal Income	Nominal \$ (M)	621.63	653.31	683.62	1,958.56		652.85
Real Disposable Personal Income	Fixed 2021-22 \$ (M)	518.71	530.23	545.44	1,594.38		531.46
Real Gross Domestic Product	Fixed 2021-22 \$ (M)	678.03	529.49	521.23	1,728.75		576.25
Consumption by Households and Government	Fixed 2021-22 \$ (M)	549.16	545.61	554.27	1,649.04		549.68
Real Output	Fixed 2021-22 \$ (M)	1,149.26	948.72	953.03	3,051.00		1,017.00

		FY2019	FY2020	FY2021	Minimum	Maximum	Average per Year
Total Employment	Jobs	3,670	2,762	2,340	2,340	3,670	2,924
Population	Persons	0	1,384	3,236	0	3,236	1,540

Program Description...

Enacted in 1999, the Quick Action Closing Fund²⁸ (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.²⁹

²⁸ 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.

²⁹ Enterprise Florida, Inc., 2012 Annual Incentives Report. Tallahassee, Florida: 11.

Analysis and Findings...

For this review period, a return on investment could not be calculated for the QACF program because all of the payments to projects came from escrow. These funds cannot be considered in the review because they were removed from the state budget during a prior period. For modeling purposes, funds placed in escrow decrease the return on investment 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 effect³⁰ of spending. The escrowed dollars are idle from the moment they hit the reserve until they are released back into the economy. While it is appropriate to count the escrowed dollars as a state expenditure when the action first occurs, their release back into the economy is a positive event.

The economic activity associated with the capital investment and jobs generated an increase in state revenues of \$57.6 million. The ROI for the program was 0.8 in 2020, 0.6 in 2017, and 1.1 in 2014.

During the review period, fifty-four projects received at least one payment from the Quick Action Closing Fund program, which is more than the project number reported in 2020 (30) and lower than the reported number in 2017 (84). Thirty-five of the total projects were bundled with Qualified Target Industry tax refunds.

During the review period, all QACF payments for projects came from escrow, totaling \$33.72 million. Returned payments from businesses to DEO significantly reduced the program's cost. There was no capital investment confirmed for the projects in the review period.

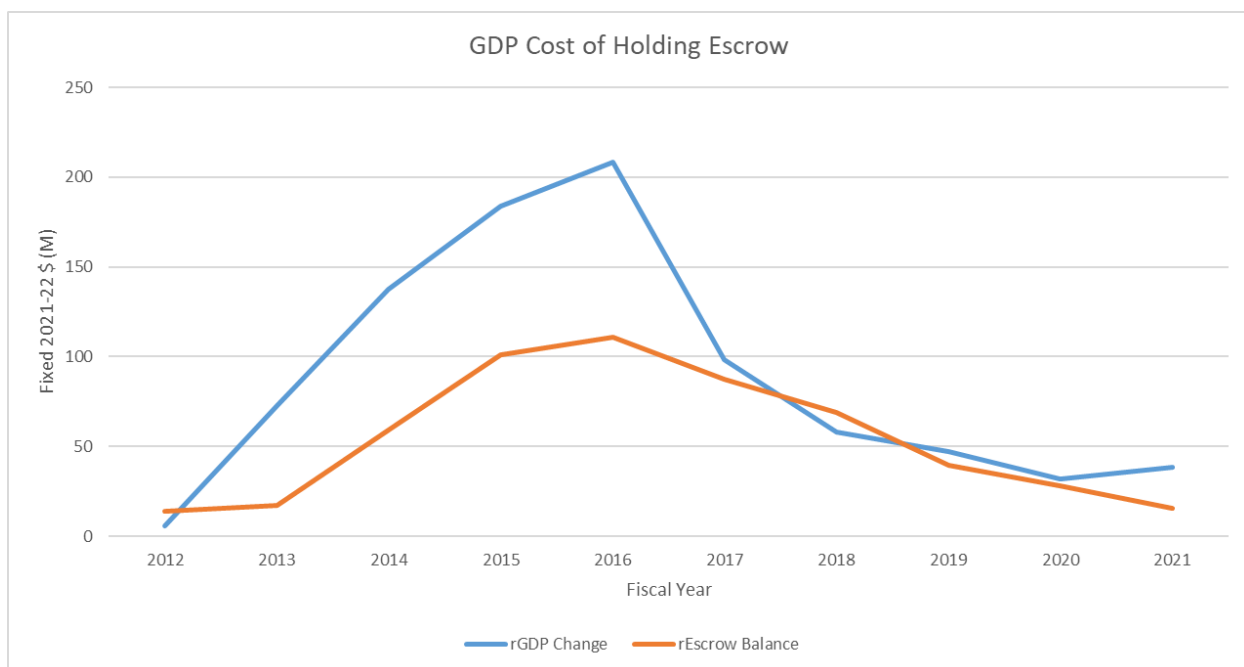
The DEO had fully implemented its authority to reserve future grant funds for a project by placing the awarded funds into an escrow account managed by Enterprise Florida, Inc. The funds remain in the account until the project recipient meets specific contractual milestones such as job creation or capital investment. The funds remaining in escrow at the end of the review period were \$15.26 million.

In an effort to quantify the impact of introducing escrowed dollars back into the economy an additional analysis was conducted. Each dollar was treated like an average dollar spent by the State of Florida. For any year of the analysis, the corresponding figures are that year's expected change from reintegrating that year's accrued, escrow balance back into the economy. For most years of the analysis, the lost multiplier effect is significant with reduced state spending resulting in weaker domestic production and increased imports from both the rest of the US and foreign sources. These imports further exacerbate the loss by removing those dollars spent on imports from the state economy reducing the multiplier effect even more. At the maximum, returning escrow funds in 2016 would have resulted in an additional \$97.38 million in real GDP (87.96%) above the injected \$110.72 million in escrow balance.

³⁰ The multiplier effect is an economic term used to describe the circulation of dollars that leads to a proportional increase. The multiplier effect occurs when an initial injection of money leads to a change into the economy. For example, a dollar spent by one person is income for another person, who will then spend that dollar on goods, which magnifies (or "multiplies") the initial change.

Annual Fiscal Year Cost of Holding Escrow											
		FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Personal Income	Nominal \$ (M)	(4.19)	(53.81)	(105.56)	(146.50)	(171.25)	(89.75)	(56.38)	(45.00)	(30.25)	(33.50)
Real Disposable Personal Income	Fixed 2021-22 \$ (M)	(4.09)	(52.36)	(101.03)	(139.14)	(162.19)	(82.26)	(50.51)	(39.64)	(26.65)	(29.35)
Real Gross Domestic Product	Fixed 2021-22 \$ (M)	(5.79)	(72.92)	(137.62)	(183.70)	(208.10)	(98.26)	(58.04)	(47.12)	(31.83)	(38.43)
Consumption by Households and Government	Fixed 2021-22 \$ (M)	(7.92)	(100.31)	(192.99)	(262.10)	(304.18)	(159.76)	(102.18)	(81.91)	(57.50)	(61.84)
Real Output	Fixed 2021-22 \$ (M)	(7.92)	(100.31)	(192.99)	(262.10)	(304.18)	(159.76)	(102.18)	(81.91)	(57.50)	(61.84)
Total Net State Revenues	Nominal \$ (M)	(0.07)	(0.98)	(1.85)	(2.30)	(2.60)	(1.20)	(0.85)	(0.93)	(0.83)	(1.08)
Real Escrow Balance	Fixed 2021-22 \$ (M)	13.82	17.30	59.03	100.86	110.72	87.52	68.99	39.81	28.21	15.75

		FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Total Employment	Jobs	0	(411)	(689)	(799)	(762)	(152)	(20)	(83)	(98)	(210)
Population	Persons	0	(16)	(136)	(368)	(632)	(912)	(968)	(942)	(878)	(806)



Conclusion...

The primary factor affecting the return on investment for the Quick Action Closing Fund Program was DEO’s use of escrow, which has permanently altered the timing of the expected returns to the state.

QACF projects generated an average of \$652.9 million a year in personal income and slightly over \$576.3 million a year in gross domestic product. On average, there were nearly 2,924 more jobs in the economy each year due to the awarded incentives.

INNOVATION INCENTIVE PROGRAM

Program Description...

Enacted in 2006, the Innovation Incentive Program (IIP) encourages high-value research and development, innovation business, and alternative and renewable energy projects.³¹ Jobs created must pay 130 percent of the average private sector wage, and state awards must be matched by local sources.³² 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...

DEO identified nine entities that have been awarded IIP grants, but only one is currently active³³. Despite its active status, the entity received no state payments during the review period, meaning an ROI could not be calculated. The ROI was 0.1 in the 2017 review, and 0.2 in the 2014 review.

A contributing factor to the low ROI in prior review periods is the industry composition of the projects in the analysis. Unlike other target industries receiving state incentives, the research and development industry has relatively low multiplier effects. To a large degree, this measure fails 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 entities that receive program incentives are required to produce a break-even economic benefit to the state within 20 years (an ROI of 1.0). Because EDR's prior analyses measured activity for periods in the early years of the program, the calculated ROI may not be representative of this program's future benefits to the state. These projects would be expected to take a substantial amount of time, effort, and investment to come to fruition.

Conclusion...

Similar to the 2020 report, EDR did not produce the ROI for IIP because there were no state payments to program recipients during the review period. The unique structure and purpose of the Innovation Incentive Program contributes to the low ROI. The failure of most projects to remain viable further diminishes the effectiveness and value of the program.

³¹ Section 288.1089, F.S. The program is similar to the Scripps Florida project approved in 2003.

³² 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.

³³ See <https://floridajobs.org/office-directory/division-of-strategic-business-development/economic-development-incentives-portal>

NEW MARKETS DEVELOPMENT PROGRAM

Economic and Fiscal Impacts

		FY2019	FY2020	FY2021	Total
State Payments in the Window	Nominal \$ (M)	25.09	12.49	7.19	44.76
Total Net State Revenues	Nominal \$ (M)	(23.98)	(11.65)	(8.30)	(43.93)
Return-on-Investment by Year		(0.96)	(0.93)	(1.16)	
Return-on-Investment for the 3 year period					-0.98

		FY2019	FY2020	FY2021	Total	Average per Year
Personal Income	Nominal \$ (M)	205.99	273.75	115.25	594.99	198.33
Real Disposable Personal Income	Fixed 2021-22 \$ (M)	184.75	244.82	99.35	528.92	176.31
Real Gross Domestic Product	Fixed 2021-22 \$ (M)	131.81	156.98	38.19	326.98	108.99
Consumption by Households and Government	Fixed 2021-22 \$ (M)	197.07	262.86	96.95	556.88	185.63
Real Output	Fixed 2021-22 \$ (M)	352.22	433.87	151.75	937.84	312.61

		FY2019	FY2020	FY2021	Minimum	Maximum	Average per Year
Total Employment	Jobs	1,407	1,738	403	403	1,738	1,183
Population	Persons	0	1,110	2,420	0	2,420	1,177

Program Description...

Using the 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 ... to create and retain jobs.”³⁴

Like the federal program, Florida’s New Markets Development Program (Florida NMDP) is based on the use of tax credits, rather than appropriations. It allows Florida Corporate and Insurance Premium taxpayers to earn tax credits by investing in Qualified Community Development Entities (CDEs) that use the proceeds from leveraged Qualified Investments (QIs) to make Qualified Low-Income Community Investments (QLICs) in Qualified Active Low-Income Community Businesses (QALICBs) in low-income communities (LICs). Florida’s program aligns with the Federal New Markets Tax Credit (Federal NMTC) program, largely relying on federal agency policies and administration.³⁵

The Department of Economic Opportunity (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 program-funded projects to determine the state’s projected return on investment as it does for many other state economic development incentives; rather, DEO approves QI allocations to any federally certified CDE authorized to service businesses in Florida,³⁶ provided general statutory

³⁴ 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 and expires in 2022.

³⁵ For a comprehensive overview of the Florida and federal programs, see Appendix Two of EDR’s 2017 report: *Economic Evaluation of Select Economic Development Incentive Programs* at <http://edr.state.fl.us/Content/returnoninvestment/ROISELECTPROGRAMS2017final.pdf>

³⁶ Section 288.9913(6), F.S. While Enterprise Florida, Inc. or an entity created by EFI may also qualify as a CDE, DEO and DOR records show that this has not occurred. The Community Development Financial Institutions (CDFI) Fund, an agency within the

criteria are met in the application.³⁷ While capital investment, job retention and creation are expressed purposes of the program, they are not conditions for receipt of program funding.

CDEs are domestic corporations or partnerships with a primary role in administering the state and federal tax credit programs.³⁸ Currently there are fifteen CDEs functioning as intermediaries between the investors, financiers, and low-income community businesses. CDEs compete for QI allocations, recruit investors and lenders, select and manage investments and ensure compliance with state and federal laws for the term of the investment.³⁹ CDEs form multiple special purpose entities (affiliate or subsidiary-CDEs) to facilitate and administer QIs, which may be used for one or multiple QLICs.

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.”⁴⁰ These costs are recovered through deductions from the QI,⁴¹ through transaction fees and recurring asset management fees assessed against the QALICBs, or by retaining some or all of the principal from the tax credit investor’s portion of the QI at the end of the investment term. DEO does not require program administrative costs and associated charges or retentions for Florida NMDP projects to be reported.⁴²

As investors in the Florida NMDP, Florida Corporate Income and Insurance Premium Tax taxpayers receive thirty-nine percent of the total leveraged QI in tax credits, prorated over the last five years of the investment period.⁴³ Leveraged QIs include equity generated from the sale of discounted 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 and other federal

Department of the Treasury, 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)

³⁷ Section 288.9914(2) & (4), 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. The available annual allocation of QIs is prorated (as calculated from the annual cap on tax credits), if necessary, among all approved applicants. Specific projects (QLICs) are required to be identified in the first Annual Report, due in year two of the investment term.

³⁸ There are two broad categories of CDEs: U.S. Department of the Treasury’s Community Development Financial Institutions Fund (CDFI Fund) CDEs which are primarily mission-driven institutions, and non-CDFI CDEs typically affiliated with for-profit parent organizations such as banks, private equity firms, venture capital firms, and Small Business Investment Companies. See Appendix Two of EDR’s 2017 report; Summit Consulting (2017); Hula & Jordan (2018); Armistead (2005a 14), and NMTCC Reports (2015-2019).

³⁹ Hula & Jordan (2018, 27-29) submit that “in many ways, the formal structure” of the program “exemplifies a principal-agent relationship” in which one entity legally appoints another to act on its behalf. Theoretically, it is a mutually benefiting structure, in that there is a delegation of tasks to those with “the talent, training and inclination to do them.” [quoting Kiewiet & McCubbins (1991, 22, 24-7)] This relationship may provide cost advantages, economies of scale and perhaps economies of scope to meet the preferences and needs of QALICBs and CDEs, as well as the principal (state or federal government). There are also inherent conflicts of interest or competing objectives in this structure. Kiewiet & McCubbins (1991, 25) warn that “certain conditions that are generally present in principal/agent relationships ... make it a particularly congenial environment of opportunism.” Conceivably, these competing objectives may be addressed in the program design, oversight and evaluation. *Also see* Murray and Bruce (2017), Cromwell and Schmisser (2016), and Hula & Jordan (2018, 32).

⁴⁰ 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 federal NMTC program.”

⁴¹ 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.

⁴² Since 2012, the CDFI Fund requires CDEs to provide QALICBs a “disclosure statement” of fees and interest for Federal NMTC projects. The CDFI Fund is not required to collect these disclosure statements for their own oversight purposes.

⁴³ 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 investment term.

programs. The investor's contribution to the total leveraged investment for the Florida or federal program varies by QI, depending on the combination of leveraged contributions to the QI and the discount price of the credit to the investor. Typically, the QALICB or the CDE retains most or all of the principal from the investor's portion of the QI at the end of the investment term. The participating lender receives interest on their portion of the QI, and recovers (or refinances) the principal at the end of the loan term.

Since its implementation in 2010, the Florida NMDP has provided funding for ninety-two QALICBs in twenty-six counties located throughout the state. Seventeen of these projects are in the manufacturing sector, nine are in health care and social assistance, and eight are in wholesale trade. The program also funded projects in the arts, entertainment and recreation industries, hospitality, office administration, and education. Florida NMDP QLICs are limited to \$10 million per QALICB. These loans or equity investments were 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.

Analysis and Findings...

Florida NMDP tax credits are capped at \$216.34 million, with no more than \$36.6 million available for allocation in any single year.⁴⁴ Credits are available to eligible investors over the last five years of the investment period. The credits can be carried forward for up to five years, and they may be transferred to other eligible owners. All remaining tax credits expired when the Florida NMDP sunset on December 31, 2022. DOR tracks the assignment and redemption of credits to investors while the DEO tracks QI allocations to CDEs, from which tax credits are calculated.

EDR requested DEO provide cumulative QI allocations for all CDEs; recipient QALICBs and associated QLICs, and the duration and status of the QLICs; cumulative job creation, job retention and wage data; and the amount of capital investments associated with QLICs. DEO compiles much of this information in a tracking system from statutorily required annual reports and financial statements submitted by CDEs.

Using available jobs and wage data,⁴⁵ EDR calculated the output from active QLICs, limited to the activity occurring in the review period. EDR also included any residual output from capital investments made prior to the review period, as well as the amount of Federal New Markets Tax Credit equity, if any. The output was then apportioned over the life of the program (10 years). The state investment is calculated as the credits redeemed within the review period, which was \$44.8 million.

DEO records show, for the review period, fifteen CDEs had qualified investments (QIs) in fifty-three Florida QALICBs. Of this total, twelve were determined to be Florida market or resource dependent. The remaining forty-one were studied during the current review period.

The return on investment for the NMDP program is -0.98, which means the program does not recover any portion of the state's investment, and state revenues are less than they would have been in the absence of the program. In the previous analysis, the ROI was -0.79. The low ROI is likely due to the diminished economic impact of initial capital investments in construction and equipment by QALICBs. The residual impact of these mature capital investments decreases over time. In addition, subsequent

⁴⁴ Section 288.9914(3)(c), F.S.

⁴⁵ If the tracking spreadsheet included reported jobs for any QALICB for any year, those jobs and wage data were used in the analysis for the review period.

capital investments, if any, are unknown as it is not required to be reported to DEO and, consequently, is not included in the analysis.

It is important to note that several general factors contribute to the relatively low ROI of the Florida NMDP:

- 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 determines which projects are funded.
- Many investments are in Florida market or resource dependent businesses.
- Program complexity and attendant administrative costs reduce the funds available for actual investment in QALICBs, adversely affecting the output which determines the ROI of the state's investment.⁴⁶
- Many projects used program funds for working capital, repaying debt or purchasing real estate.⁴⁷ Investments in construction or equipment purchases contribute more strongly to a higher ROI.
- Many 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 equity generated from the sale of tax credits into new program projects. The QALICBs typically receive tax credit equity in the form of a loan and, after seven years, the QALICB is forgiven the loan or the CDE retains the loan repayment. As this tax credit equity could be used at no additional cost to the state to finance further projects, this is a potential 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 potentially maintain the same level of activity. In effect, the state may be paying more than it has to for its intended result.

⁴⁶ See the related discussion on pages 54 – 56 in Appendix Two of EDR's 2017 report: *Economic Evaluation of Select Economic Development Incentive Programs* at <http://edr.state.fl.us/Content/returnoninvestment/ROISELECTPROGRAMS2017final.pdf> As to the cost-effectiveness of the program, the GAO concluded that "...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." (GAO 10-334, 28. *Also see* GAO 14-500, 24). Marples (2019, 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."

⁴⁷ 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 designed 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.

Conclusion...

The return associated with the Florida New Markets Development Program is negative, indicating the program does not recover any portion of the state's investment, and state revenues are less than they would have been in the absence of the program.

However, 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.⁴⁸

⁴⁸ For a comprehensive overview of the Florida program, see Appendix Two of EDR's 2017 report: *Economic Evaluation of Select Economic Development Incentive Programs* at <http://edr.state.fl.us/Content/returnoninvestment/ROISELECTPROGRAMS2017final.pdf>

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 or business 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 are strategies used 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 the 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 double the nation's average annual growth rate between 2015 and 2030, with almost all 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.⁴⁹

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, incentives are 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:⁵⁰

- 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 EDO. The assistance is provided through grants, loans, equity investments, loan

⁴⁹ 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.

⁵⁰ 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.

insurance, and loan 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. Direct financial incentives are generally project specific, contingent on pre-award review and evaluation, and typically performance-based.

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. In most instances, tax-based incentives are awarded upon verification of eligibility and may not be subject to pre-award review and evaluation like direct financial incentives. 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 Federal Historic Rehabilitation Tax Credit, Renewable-Energy Investment Tax Credit, 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 the provision of 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.⁵¹ In local Fiscal Years 2010-11 through 2019-20, those counties, municipalities, and Community Redevelopment Agencies (CRAs) which submitted data to EDR reported the payment of economic development incentive totaling \$904.6 million. Of the total, \$620.8 million is associated with counties; \$202.8 million is associated with municipalities; and \$81.1 million is associated with CRAs.

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 review.

From the business perspective, it may be that this total combination of incentives is necessary to be determinative to its decision regarding retention, expansion, or relocation.⁵² 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.”⁵³

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.

⁵¹ <http://edr.state.fl.us/Content/local-government/reports/econincentives20.pdf>

⁵² 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.

⁵³ Black's Law Dictionary, 5th Edition, 1999.

Second, regardless as to whether subsidies are influential or determinative in business decisions, they can:

- Distort the marketplace by artificially lowering production costs;
- 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—or a tax incentive such as an exemption or credit. The general guidelines related to federal tax treatment are described below.⁵⁴

- **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.

⁵⁴ This information was provided by staff from the Florida Senate Appropriations Subcommittee on Finance and Tax, 12/17/19. Information on file at EDR.

Federal Tax Treatment of State Incentives		
(Assuming 21% Federal Tax Rate)		
<i>Award Type</i>	<i>Effect</i>	<i>Value to Taxpayer</i>
Cash Grant	Increases Federal Taxable Income	79% of face value
Tax Exemption	Increases Federal Taxable Income by Reducing Deduction	79% of face value
Tax Credit	Increases Federal Taxable Income by Reducing Deduction	79% of face value

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...

As stated previously, 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.⁵⁵

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 Peters and Fisher (2004, 32) 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.”⁵⁶

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.

⁵⁵ A former Florida Secretary of Commerce and Enterprise Florida’s President and CEO, stated that unlike other static site selection factors, incentives can be adjusted to meet the needs of individual projects—those needs created by any perceived deficiencies relative to the next viable location. (Gray Swoope, August 19, 2013, Economic Roundtable held by EDR.)

⁵⁶ For a review of this research through 2013, see Appendix One: Assessing the “But For” Assertion: A Literature Review from EDR’s 2014 “Return-on-Investment for Select State Economic Development Incentive Program.”

http://edr.state.fl.us/Content/returnoninvestment/EDR_ROI.pdf

Recent research includes Bartik’s (2018) literature review of the “But For” assertion regarding state and local economic development incentives in business location, expansion or retention decisions. Based on a review of thirty-four estimates from 30 different studies, he “concludes that typical incentives probably tip somewhere between 2 percent and 25 percent of incited firms toward making a decision favoring the location providing the incentive. In other words, for at least 75 percent of incited firms, the firm would have made a similar location/expansion/retention decision without the incentive.”

Jensen’s (2018, 29 & 32) study of Texas’ Chapter 313 Property Tax Assessment limitation program for new capital investments suggest that “only 15% of the firms participating in the program would have invested in another state without this incentive.” In 2016, the program was estimated “to provide more than \$7 billion in tax abatements over the lifetime of the funded projects.” Slattery (2019, 2 & 1) finds that for large mobile firms, “subsidies have a substantial effect on the firm location decision: almost 68% of firms would locate in another state” in the absence of incentives from either the host state or competing states. She derives this estimate from a subsidy “bidding” model to estimate the efficiency of subsidy competition. The model contained 495 firms from 2002 – 2016 receiving at least \$5 million in subsidies. (The average subsidy was \$156 million.)

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) 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 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 or business 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.⁵⁷ 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.

⁵⁷ See related research in References page. Also see Appendix Two: Assessing the Economic Benefits of Public Subsidies for Professional Sports Facilities --A Literature Review, in EDR’s 2015 “Return on Investment for the Florida Sports Foundation Grants and Related Programs.” <http://edr.state.fl.us/Content/returnoninvestment/SportsGrantsandPrograms.pdf>

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.⁵⁸ 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.

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.”

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.”

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.”

⁵⁸ 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.

In light of these perspectives, the economic benefit could be attributed in one of two 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 are 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 2018 review of Florida's 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."⁵⁹

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 lost benefits that could have been obtained if the public resources committed to a project or program were instead deployed to the best alternative. 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 or related 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.

Conclusion...

A number of issues shape EDR's analysis of economic development incentive programs and calculation of the state's return on investment (ROI). The preceding overview explains the application of these issues and guides the analysis.

⁵⁹ The Florida Legislative Office of Economic & Demographic Research, "Return on Investment for the Florida Sports Foundation Grants and Related Programs." January, 2018. Appendix, page 29.

APPENDIX TWO: Enterprise Zones

Background...

The Enterprise Zone program sunset on December 31, 2015. 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 expired 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. In 2017, the Legislature preserved Enterprise Zone boundaries in existence before the repeal of the program to allow local governments to administer local incentive programs within these boundaries, through December 31, 2020. This sunset date was extended to December 31, 2025 for “eligible contiguous multi-phase projects in which at least one certificate of use or occupancy has been issued before December 31, 2020, and which project will then vest the remaining project phases until completion...”⁶⁰

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.”⁶¹

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.⁶² Florida also had three Federal Enterprise Communities and two Federal Empowerment Zones.⁶³ 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.

⁶⁰ Sections 56, ch. 2017-36, Laws of Florida.

⁶¹ Sections 290.001 – 290.016, F.S.

⁶² See Department of Economic Opportunity, Bureau of Economic Development, Division of Community Development. Enterprise Zone Program Annual Report, 2015. Tallahassee, Florida.

⁶³ The federal Empowerment Zone program was originally scheduled to expire on December 31, 2013. Subsequent legislation extended the program several times through December 31, 2020. Most recently the sunset date was extended through December 31, 2025, but only in certain circumstances.

In January 2014, EDR released a report entitled *Return on Investment for Select State Economic Development Incentive Programs*.⁶⁴ 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 program primarily captures or shifts existing economic activity from other in-state locations to the zone rather than inducing new economic activity.⁶⁵

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.

EDR’s 2017 report 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, 2015.⁶⁶ Eligibility for this special treatment expired 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

⁶⁴ http://edr.state.fl.us/Content/returnnoninvestment/EDR_ROI.pdf (pp. 59-64)

⁶⁵ 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.

⁶⁶ Section 30, ch. 2015-221, Laws of Florida.

enterprise zones, so long as the projects were approved prior to December 31, 2015.⁶⁷ In 2017, the Legislature preserved Enterprise Zone boundaries in existence before the repeal of the program to allow local governments to administer local incentive programs within these boundaries, through December 31, 2020. This sunset date is extended to December 31, 2025 for “eligible contiguous multi-phase projects in which at least one certificate of use or occupancy has been issued before December 31, 2020, and which project will then vest the remaining project phases until completion...”⁶⁸

Conclusions...

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.

EDR has not revisited the return on investment for this program since 2015; however, even though the formal program has ceased to exist, there are certain instances in which credits can still be taken.

⁶⁷ Sections 2-4, ch. 2016-220, Laws of Florida. The law also expanded from 10 to 20 years an exemption for data center equipment.

⁶⁸ Sections 56, ch. 2017-36, Laws of Florida.

APPENDIX THREE: Capital Investment Tax Credit (CITC) – Nine-year Review

Statewide Economic Model Impact Projections of the Capital Investment Tax Credit Program

		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	Total
State Payments in the Window	Nominal \$ (M)	16.97	21.04	22.15	30.67	33.93	18.78	53.22	64.46	70.11	331.32
Total Net State Revenues	Nominal \$ (M)	(7.98)	(11.76)	(9.78)	(8.94)	(12.82)	3.07	(26.32)	(35.54)	(47.39)	(157.45)
Return-on-Investment by Year		-0.47	-0.56	-0.44	-0.29	-0.38	0.16	-0.49	-0.55	-0.68	
Return-on-Investment for the 9 year period											-0.48

		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	Total	Average per Year
Personal Income	Nominal \$ (M)	405.94	511.81	729.00	1,242.9	1,340.5	1,461.9	1,754.8	1,952.9	1,767.3	11,166.9	1,240.8
Real Disposable Personal Income	Fixed 2021-22 \$ (M)	400.11	498.87	709.38	1,207.2	1,284.2	1,380.0	1,621.9	1,780.9	1,578.8	10,461.4	1,162.4
Real Gross Domestic Product	Fixed 2021-22 \$ (M)	593.08	690.85	965.25	1,669.5	1,706.0	1,784.7	2,098.0	2,278.6	1,926.0	13,711.9	1,523.5
Consumption by Households and Government	Fixed 2021-22 \$ (M)	391.23	474.32	683.81	1,193.8	1,261.4	1,358.7	1,577.7	1,734.2	1,506.1	10,181.2	1,131.2
Real Output	Fixed 2021-22 \$ (M)	923.74	1,064.22	1,484.94	2,613.1	2,650.5	2,739.0	3,209.6	3,507.5	2,951.7	21,144.3	2,349.4

		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	Minimum	Maximum	Average per Year
Total Employment	Jobs	1,508	916	1,095	2,290	1,470	1,401	2,064	2,356	1,522	916	2,356	1,625
Population	Persons	0	1,120	2,272	3,682	5,986	8,034	9,986	12,194	14,402	0	14,402	6,408

Individual projects can take CITC credits throughout a twenty year period. Therefore, EDR conducted a nine-year analysis to study the long-run economic effects of the CITC program. During the period there were 130 returns filed with claimed credits, totaling \$331 million. Total capital investment for the nine-year review period is \$2,219 million. For yearly capital investments, see the chart below.

Capital Investment for FY 13-14 through FY 20-21							
13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
203,214,352	357,572,325	582,850,528	466,506,279	257,962,242	142,292,183	127,933,674	80,879,968

The resulting study has a programmatic ROI of -0.48. The return on investment for the current review period is -0.58 and has a very similar ROI to that of prior review periods. ROIs for the previous periods 2017 and 2020 are -0.22 and -0.49 respectively.

Despite net revenues to the state that are negative, Florida’s economy still benefited from the new capital investment, wages, jobs and output generated by these projects. These projects generated an average of \$10,461 million a year in inflation-adjusted disposable personal income and \$13,711 million a year in real gross domestic product.⁶⁹ On average there were 1,625 more jobs economy-wide each year (which accounts for the direct, indirect, and induced effects).

⁶⁹ These inflation-adjusted figures are in FY 2021-22 dollars.

APPENDIX FOUR: Qualified Target Industry (QTI) - Twelve-year Review

Statewide Economic Model Impact Projections of the Qualified Target Industry Tax Refund Program

		FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	Total
State Payments in the Window	Nominal \$ (M)	8.54	6.16	4.19	4.22	5.26	5.66	7.05	9.07	11.55	12.59	14.48	15.11	103.86
Total Net State Revenues	Nominal \$ (M)	(4.41)	(1.22)	0.44	2.27	1.18	9.30	6.90	6.86	4.62	4.10	2.83	2.81	35.67
Return-on-Investment by Year		(0.52)	(0.20)	0.11	0.54	0.22	1.64	0.98	0.76	0.40	0.33	0.20	0.19	
Return-on-Investment for the 12 year period														0.34

		FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	Total	Average per Year
Personal Income	Nominal \$ (M)	139.63	162.75	152.88	217.13	215.00	553.88	537.38	622.25	621.88	622.25	622.13	621.75	5,088.88	424.07
Real Disposable Personal Income	Fixed 2021-22 \$ (M)	115.40	132.31	122.50	170.32	167.02	417.66	394.73	449.28	441.65	433.74	425.57	416.95	3,687.14	307.26
Real Gross Domestic Product	Fixed 2021-22 \$ (M)	190.50	220.88	200.92	289.37	278.13	711.04	629.92	704.41	673.84	651.88	635.10	620.50	5,806.48	483.87
Consumption by Households and Government	Fixed 2021-22 \$ (M)	100.09	115.74	106.76	147.75	145.54	365.50	345.79	391.94	383.13	373.58	363.92	353.83	3,193.59	266.13
Real Output	Fixed 2021-22 \$ (M)	296.68	355.80	320.01	447.42	433.85	1,053.19	948.43	1,043.86	1,007.07	981.40	960.48	942.57	8,790.78	732.56

		FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	Minimum	Maximum	Average per Year
Total Employment	Jobs	391	534	449	833	707	2,283	1,166	1,148	892	905	1,040	1,235	391	2,283	965
Population	Persons	1,472	1,696	1,952	2,144	2,496	2,752	4,064	5,024	6,048	6,848	7,488	8,032	1,472	8,032	4,168

DEO provided a new dataset for the QTI program after discovering an error in the selection of projects. Data prior to this discovery included all approved projects instead of projects that were only active during the review period. EDR conducted a new analysis with the new data. Results for all years going back to the first review in the 2014 report are shown in the chart above.

Overall, the QTI program has an ROI of 0.34, meaning the program did not breakeven over the entirety of the review period. However, the state generates enough revenues to recover a portion of its cost of the investment. The ROIs for prior review periods are:

- 2014 Review: -0.27
- 2017 Review: 0.84
- 2020 Review: 0.66
- 2023 Review (current): 0.23.

The low ROI of the program may be due to a high concentration of businesses in culled industries. These businesses depend on Florida's markets or resources and/or would have existed in Florida in the absence of the incentive. For culled projects, the cost to the state was included in the analysis but the associated economic benefits (jobs, wages, and output) are removed. Another factor contributing to the low ROI is the mix of industries with low multipliers. The projects in the QTI analysis were largely in designated target industries such as manufacturing, management of companies and professional, scientific, and technical services.

Results for 2014 Review (FY 2009-10 to FY 2011-12)

Statewide Economic Model Impact Projections of the Qualified Target Industry Tax Refund Program for FY 2009-10 to FY 2011-12

		FY2010	FY2011	FY2012	Total
State Payments in the Window	Nominal \$ (M)	8.54	6.16	4.19	18.89
Total Net State Revenues	Nominal \$ (M)	(4.41)	(1.22)	0.44	(5.19)
Return-on-Investment by Year		(0.52)	(0.20)	0.11	
Return-on-Investment for the 3 year period					-0.27

		FY2010	FY2011	FY2012	Total	Average per Year
Personal Income	Nominal \$ (M)	139.63	162.75	152.88	455.25	151.75
Real Disposable Personal Income	Fixed 2021-22 \$ (M)	115.40	132.31	122.50	370.21	123.40
Real Gross Domestic Product	Fixed 2021-22 \$ (M)	190.50	220.88	200.92	612.29	204.10
Consumption by Households and Government	Fixed 2021-22 \$ (M)	100.09	115.74	106.76	322.60	107.53
Real Output	Fixed 2021-22 \$ (M)	296.68	355.80	320.01	972.49	324.16

		FY2010	FY2011	FY2012	Minimum	Maximum	Average per Year
Total Employment	Jobs	391	534	449	391	534	458
Population	Persons	1,472	1,696	1,952	1,472	1,952	1,707

The ROI for the 2014 review period is -0.27. The low ROI is largely due to a high percentage of projects in the Wholesale industry. These projects were culled from the analysis because they are Florida market dependent businesses. However, the cost to the state is still in the calculation and payments to culled industries are included in the \$18.9 million State Payments in the Window.

The negative ROI is also due to a greater concentration of awards in industries with lower multipliers (i.e. Professional, Scientific and Technological Services compared to Manufacturing). Of all industries in this review period, 64.3 percent were in Professional, Scientific and Technological Services categories. Slightly more than half of these industries (34.6 percent) were within Other Professional and Technical Services. Industries within Manufacturing NAICS categories only comprised 35.7 percent of all projects in the review period. Industries in Manufacturing have higher output multipliers, meaning these businesses have a stronger effect on the economy from the purchase of raw materials, purchase of equipment, and the sale of completed products into the market. The high concentration of industries with low multipliers and the payments to industries that are Florida market dependent resulted in the negative ROI for this review period.

Results for 2017 Review (FY 2012-13 to FY 2014-15)

Statewide Economic Model Impact Projections of the Qualified Target Industry Tax Refund Program for FY 2012-13 to FY 2014-15

		FY2013	FY2014	FY2015	Total
State Payments in the Window	Nominal \$ (M)	4.22	5.26	5.66	15.13
Total Net State Revenues	Nominal \$ (M)	2.27	1.18	9.30	12.75
Return-on-Investment by Year		0.54	0.22	1.64	
Return-on-Investment for the 3 year period					0.84

		FY2013	FY2014	FY2015	Total		Average per Year
Personal Income	Nominal \$ (M)	217.13	215.00	553.88	986.00		328.67
Real Disposable Personal Income	Fixed 2021-22 \$ (M)	170.32	167.02	417.66	754.99		251.66
Real Gross Domestic Product	Fixed 2021-22 \$ (M)	289.37	278.13	711.04	1,278.54		426.18
Consumption by Households and Government	Fixed 2021-22 \$ (M)	147.75	145.54	365.50	658.79		219.60
Real Output	Fixed 2021-22 \$ (M)	447.42	433.85	1,053.19	1,934.47		644.82

		FY2013	FY2014	FY2015	Minimum	Maximum	Average per Year
Total Employment	Jobs	833	707	2,283	707	2,283	1,274
Population	Persons	2,144	2,496	2,752	2,144	2,752	2,464

The ROI for the 2017 review period is 0.84, meaning the state did not break even. However, the state generated enough revenue to recover a portion of its cost of the investment. This review period has the highest ROI in the 12-year history of the program. This review period also has the highest concentration of projects in within Manufacturing NAICS categories.

From FY 2012 -13 to FY 2014-15, the industry makeup skewed more heavily toward manufacturing industries (54.4 percent) than Professional, Scientific and Technological Services (45.6 percent). As previously mentioned, Manufacturing projects have high multiplier effects and create more taxable activity than projects in Professional, Scientific and Technological Services. Wholesale industries were culled from the analysis, however, there were fewer State Payments in the Window than in the previous review period. Also, the number of industries with high multipliers meant that taxable activity increased within the State compared to the prior review. This resulted in a \$12.8 million increase to Total Net State Revenues, compared to -\$5.2 million in the previous review period.

Results for 2020 Review (FY 2015-16 to 2017-18)

Statewide Economic Model Impact Projections of the Qualified Target Industry Tax Refund Program for FY 2015-16 to FY 2017-18

		FY2016	FY2017	FY2018	Total
State Payments in the Window	Nominal \$ (M)	7.05	9.07	11.55	27.66
Total Net State Revenues	Nominal \$ (M)	6.90	6.86	4.62	18.38
Return-on-Investment by Year		0.98	0.76	0.40	
Return-on-Investment for the 3 year period					0.66

		FY2016	FY2017	FY2018	Total	Average per Year
Personal Income	Nominal \$ (M)	537.38	622.25	621.88	1,781.50	593.83
Real Disposable Personal Income	Fixed 2021-22 \$ (M)	394.73	449.28	441.65	1,285.67	428.56
Real Gross Domestic Product	Fixed 2021-22 \$ (M)	629.92	704.41	673.84	2,008.16	669.39
Consumption by Households and Government	Fixed 2021-22 \$ (M)	345.79	391.94	383.13	1,120.87	373.62
Real Output	Fixed 2021-22 \$ (M)	948.43	1,043.86	1,007.07	2,999.36	999.79

		FY2016	FY2017	FY2018	Minimum	Maximum	Average per Year
Total Employment	Jobs	1,166	1,148	892	892	1,166	1,069
Population	Persons	4,064	5,024	6,048	4,064	6,048	5,045

The ROI for the 2020 review period is 0.66. The industry makeup during this period shifted back to favor Professional, Scientific and Technological Services. Manufacturing industries, which have higher multipliers and create more revenues for the state, went from 54.4 percent of the industry makeup in the previous review to 32.9 percent in this review period. The higher concentration of industries with low multipliers created a lower ROI compared to the previous review.

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