The Florida Senate

Interim Project Report Summary 98-08 *November 1998*

Committee on Commerce and Economic Opportunities Senator Katherine Harris, Chairman

AN EFFECTIVENESS REVIEW OF FLORIDA'S ECONOMIC DEVELOPMENT PROGRAMS

SUMMARY

Even utilizing a comparatively narrow definition of "economic development" that focuses on the provision of benefits and services directly to existing, expanding, or relocating businesses, it is evident that Florida's economic development toolbox includes numerous and diverse initiatives supported with revenues from the state. Although these programs typically are tailored to address specific needs, they, arguably, all fit within a broader strategic design of fostering a business climate conducive to the creation of employment opportunities for Floridians.

A survey of local economic development organizations (EDOs) reveals that three of these programs are viewed as being particularly effective: the "Road Fund," Quick Response Training, and the Qualified Target Industry (QTI) Tax Refund Program. These are also the programs that responding EDOs report utilizing most frequently in their dealings with existing businesses and business prospects. Perceptions among responding EDOs on other economic development programs varied considerably, as did their familiarity with and reported utilization of those programs. The divergence of opinions on the programs may reflect the diversity of Florida's communities and the fact that these communities and their businesses have different economic development needs and look to different programs for assistance in addressing those needs.

Citing the specialized circumstances of their respective clients, administrators routinely advocated in their survey responses for the continuation of the programs they manage. In some cases, program administrators stressed the importance of stability or increases in funding, or recommended structural or administrative changes to programs in order to enhance their effectiveness.

BACKGROUND

Economic Development Landscape

The adoption in 1996 of legislation providing for the dissolution of the state's Department of Commerce and legislation rewriting the rules governing the state's welfare system represented a milestone in Florida's economic development history. While certainly not the first, nor likely the last, significant policy undertakings affecting economic development, these legislative measures have contributed to a period of substantial emphasis among elected officials, program administrators, business leaders, economic development professionals, and others in Florida on issues relating to job creation, business location and expansion, and the competitiveness of the state's business climate. For example, in the two-year period following enactment of the measures, which transferred principal economic development responsibilities to the public-private partnership Enterprise Florida, Inc. (EFI), and which replaced the state's long-standing welfare system with one requiring employment, the Florida Senate in 1997 launched a Job Opportunities and Business Stimulus (JOBS) initiative. Under the effort, business and economic development leaders from around the state testified before the Senate's substantive committees on ideas for creating a business climate conducive to the creation of jobs. In addition, the Senate in 1998 created a Select Committee on WAGES Targeted Economic Development in order to mobilize resources in support of job creation for individuals moving off welfare in areas of critical concern to the state.

At the same time, the intensity of economic development competition nationwide and internationally endures, with one high-profile example being the recent multi-state contest for the location of a rocket plant by Boeing Company, which ultimately selected Alabama. This economic development competition, fueled in significant part by the public policy goal of creating jobs for state citizens, results in annual requests to the Legislature for new or ongoing financial support of programs and initiatives designed to make Florida a more attractive place to do business and thereby encourage company expansions and locations in the state.

Defining & Pricing "Economic Development"

A recent report from the Task Force on Economic Development Incentives (task force) of the National Conference of State Legislatures (NCSL) noted that state legislators routinely face uncertainty in economic development spending. The task force report stated:

> Individual states spend tens of millions to hundreds of millions of dollars annually on economic development programs. Few states know the exact amount they spend to support economic development initiatives. No state knows how effectively the money is spent. Academics and policymakers continue -- as they have for years -- to debate fundamental questions. Do state incentives aid or hinder growth of the national economy? Do state tax incentives really have an effect on state economic growth? And new questions continue to emerge, especially concerning recent international trade agreements such as NAFTA and GATT.

(*A Review of State Economic Development Policy: A Report from the Task Force on Economic Incentives*, National Conference of State Legislatures, March 1998, p. 1.)

Complicating the process of determining how much the state spends in support of economic development is establishing a common definition for the term "economic development." As the NCSL task force report noted:

> A complete list of state activities that foster economic development would include almost everything states do. Public education, transportation, public safety, and administration of the courts are essential parts of the physical and social infrastructure. Regulation of labor and working conditions, public health, banking and other financial activities, and environmental conditions all affect the climate for economic development. But there are also dozens of more narrowly targeted state programs.

(*A Review of State Economic Development Policy*, NCSL, March 1998, p. 6.)

Florida, too, has grappled with the difficulty of establishing a common definition of the term "economic development." In 1994, for example, the Florida Advisory Council on Intergovernmental Relations (ACIR), released a discussion paper on economic development budgeting in Florida, in which the council noted that "there has not been a universal consensus on what activities actually constitute economic development." (*Economic Development Budgeting in Florida*, Florida Advisory Council on Intergovernmental Relations, December 5, 1994, p. 6.)

In its paper, the council offered three alternative definitions, with the most narrow one focusing on the provision of direct incentives and assistance to businesses in order to create and retain jobs. The second definition was more expansive, adding support for new technology, product, and market development, as well as investment in physical and human resources necessary for economic growth. The third and most broad definition offered by the council incorporated investment in education, research, and environmental systems. Because the definitions built upon one another, activities ultimately captured within the final definition ranged from direct loans for plant and equipment expansion to funding for the state's K-12 public education system. (*Economic Development Budgeting in Florida,* ACIR, December 5, 1994, pp. 8-10.) It is noteworthy that none of the three definitions included regulatory relief or tax incentives such as exemptions, credits, and abatements, which many business leaders and economic development authorities would argue do affect business development. Consequently, some experts might offer a still broader definition of "economic development." In addition, this potential range of economic development definitions means that there is also an equally broad potential range of economic development price tags.

Scope & Purpose of Report

This interim project report does not attempt to evaluate all of Florida's initiatives that could be considered economic development programs, particularly in light of the fact that "economic development" in its broadest sense may include an abundance of activities designed to improve the business climate and economic fundamentals of the state. Rather, this report attempts to identify the principal programs that are utilized by economic development professionals in assisting existing, expanding, and relocating businesses.

Excluded from the scope of this report are Florida's various sales tax and other tax exemptions and credits, because the report concentrates primarily on activities involving legislative appropriations. Also excluded from this report are certain special-emphasis programs, such as tourism, sports, and entertainment marketing, that, while vital components of Florida's economic engine, are less directly linked to the kinds of assistance and recruitment activities performed by local economic development organizations on a daily basis.

The purpose of this report is to provide senators with an overview of the operation of Florida's principal economic development programs, in order to assist them in determining priorities for resource allocation and in determining what services the state is purchasing with its resources. Although some comparative rankings are established among multiple programs based upon the perspectives of economic development professionals, the primary focus of the report is on providing the Senate with basic information on individual programs and issues impacting the effectiveness of each program.

METHODOLOGY

Survey of Economic Development Organizations

In order to gauge the effectiveness of Florida's economic development programs from the perspective of "frontline" economic development professionals, committee staff sent a satisfaction survey to local economic development organizations (EDOs) representing each of the state's 67 counties. Among other questions, the survey asked each EDO to list in rank order the five most effective state-supported economic development programs, as well as the five most frequently utilized programs. In addition, the survey asked each EDO to rank -- using a scale of one to five, with one being "extremely effective" and five being "not at all effective" -- more than 20 specifically identified economic development programs or initiatives. The EDOs were also asked: to identify any programs that could be eliminated, to describe barriers to utilization of existing programs, to recommend revisions to existing programs or to the existing organizational structure for economic development, and to describe any new programs that are deemed necessary.

Survey of Program Administrators

To gather output and outcome information on the performance of the state's principal economic development programs, committee staff sent a survey to the administrators of approximately 25 economic development and related initiatives. In addition to soliciting information on the typical client for each program, the manner in which clients are referred to each program, and the services provided to such clients, the survey asked the administrators to describe how the state benefits from the provision of services under each program. Among other questions, the survey also asked administrators: to identify alternative sources to which clients could turn if the program were eliminated, to describe the extent to which the program interacts with other economic development programs, to describe the involvement of non-state partners in the funding or administration of the program, and to outline the recommended future direction of the program and any recommended changes to improve the effectiveness of the program.

FINDINGS

Survey of Economic Development Organizations

The survey designed for economic development practitioners was sent to 70 local economic development organizations (EDOs) throughout the state. Twenty-one EDOs replied, which represents a response rate of approximately 30 percent. The respondents represented multiple regions of the state, including counties in the Northwest, Big Bend, Northeast, Central, Tampa Bay, Southwest, South Central, and Southeast regions of the state. The survey attempted to assess their perspectives on the effectiveness of Florida's economic development programs in two principal manners: 1) by asking in an open-ended question for each organization to list, in priority order, the five most effective state-supported programs, and 2) by providing, in a separate question, a list of specific programs and asking the EDO to rate each program individually using a scale of one to five, with one representing "extremely effective" and five representing "not at all effective." Under the latter approach, an average effectiveness rating was then calculated for each of the listed programs. Respondents were also given the option of selecting "no opinion about the program" (NO) or "not familiar enough with the program to answer" (NF).

The five economic development initiatives most frequently cited by responding EDOs as being the most effective state-support programs were:

- Economic Development Transportation Projects ("Road Fund"), which received seven first-place votes and a total of 20 top-five votes;
- Quick Response Training, which received three first-place votes and a total of 18 top-five votes;
- Qualified Target Industry (QTI) Tax Refund Program, which received six first-place votes and a total of 16 top-five votes;
- Rural Community Development Revolving Loan Fund, which received three first-place votes and a total of six top-five votes; and
- Enterprise Zone Program, which received no first-place votes but a total of six top-five votes.

When the EDOs were asked to rate programs in isolation (using a one-to-five sliding scale, with one being "extremely effective" and five being "not at all effective"), these programs likewise received favorable effectiveness ratings. The "Road Fund," Quick Response Training, and QTI, in particular, received the most favorable average effectiveness ratings of 1.2, 1.4, and 1.7 respectively. Other programs that received notably favorable effectiveness ratings were Enterprise Bonds (1.9), EFI's Manufacturing Technology Centers (2.2), High Impact Performance Incentives (2.2), "Team Florida" trade missions (2.4), the U.S. Small Business Administration (SBA) 504 loan program (2.4), and the Rural Community Development Revolving Loan Fund (2.4).

The newly created Small Business Technology Growth Fund and the pilot matching job training grant program are two initiatives that also received particularly favorable average effectiveness ratings -- 2.3 and 1.9 respectively. However, their averages are based on a very limited number of rating votes. With respect to these two programs, the majority of respondents indicated that they had no opinion about the programs or were not familiar enough with the programs to answer. In fact, both programs received nine "not familiar" responses and three "no opinion" responses. The lack of familiarity with the programs may be attributable to the fact that one is very new and the other is a pilot program somewhat narrow in scope.

Responding EDOs awarded the least favorable average effectiveness rating (3.9) to the Cypress Equity Fund of Enterprise Florida. Five EDOs reported that the program was "not at all effective," while three respondents gave the program a two ranking. The remaining twelve respondents reported that they either had no opinion about the program or were not familiar enough with the program to answer.

The Cypress Equity Fund, which is sometimes referred to as a "fund of funds," was created in an effort to foster the development of venture capital infrastructure in Florida. The fund was capitalized in 1995 with an investment of $35.5 million by the State Board of Administration and five financial institutions. The moneys are invested in approximately 10 to 15 venture capital firms, which in turn make investments in businesses in Florida and elsewhere. EFI reports that to date six small businesses in Florida have received $96.2 million in funding from venture capital firms supported by the Cypress Equity Fund and their co-investors. EFI notes that no legislative appropriations have been used to make investments in the fund, but rather were used initially to cover organizational costs of development of the fund.

(For the average effectiveness rating for each of the programs posed in the survey to the EDOs, see **Table 1** in the full interim project report.)

Perhaps not surprisingly, the economic development programs viewed by EDOs as being the most effective were the programs cited as being the most often utilized. In response to an open-ended survey question asking the EDOs to list the five programs most frequently used in working with new or existing businesses, the EDOs overwhelmingly cited the "Road Fund" (15 top-five votes), Quick Response Training (15 top-five votes), and QTI (13 top-five votes). A wide variety of other programs, including some local initiatives, made up the balance of frequently utilized programs, with none particularly dominating. Examples of these included: the EFI Manufacturing Technology Centers, U.S. SBA 504 loans, local impact fee mitigation and property tax abatement, enterprise zone benefits, the Rural Community Development Revolving Loan Fund, Enterprise Bonds, and the EFI Innovation and Commercialization Centers.

It is noteworthy that in several cases, responding EDOs indicated that they either had no opinion about programs or were not familiar enough with the programs to evaluate them. In addition to the Small Business Technology Growth Fund and the pilot matching job training grants, discussed above, programs that received six or more "NO"/"NF" responses included: High-Impact Performance Incentives, Qualified Defense Contractors (QDC) Tax Refund, Rural Community Development Revolving Loan Fund, Brownfields Redevelopment QTI Bonus, microenterprise activities, Florida Export Finance Corporation, Innovation and Commercialization Centers, Trade Data Center, Black Business Investment Board activities, and Cypress Equity Fund. The basis for these responses is not immediately clear; however, potential reasons may include: 1) a need for additional marketing of the programs, 2) the fact that programs may be tailored to meet specialized conditions not applicable to all communities, and 3) the relative newness of some programs.

Survey of Program Administrators

As might be expected, in their survey responses, administrators universally advocated for the economic development importance of the programs they manage. In several cases, respondents provided extensive supplemental materials and data on the operations on the programs, which information is too voluminous to include within this report. (See **Table 2** in the full interim project report, which summarizes such information, focusing on the purpose of each program; the principal outputs or outcomes of each program; and issues, as identified by the administrators, affecting the significance of the program and the ability of the program to be effective. This table is designed to provide the Senate with basic information, in the nature of a primer, that illustrates the types of economic development programs Florida currently operates. In addition, the information may assist in establishing initial economic development budgeting priorities.)

In some cases, administrators cited a specific number of jobs created in the Florida economy as evidence of the effectiveness of a particular economic development program. Because multiple programs or services may be offered as a package to a new or expanding business, however, it is difficult to determine if the jobs created by such business may be attributed to one program exclusively. From the program administrator survey data it was also difficult to ascertain the level of interaction and coordination among Florida's economic development programs. The survey included a question asking for a description of the extent to which and how each program interacts with other economic development programs; however, in most cases the responses were not detailed enough to allow for a thorough assessment.

Issues Confronting QTI Program

Future year commitments made to businesses are growing significantly under the Qualified Target Industry (QTI) Tax Refund Program, which is one of the state's primary economic development incentives. The QTI Program, s. 288.106, F.S. (1998 Supp.), allows new or expanding businesses in certain key industrial sectors or corporate headquarters to be approved for tax refunds of up to $5,000 per job created ($7,500 in an enterprise zone). To be eligible, a new business must create at least 10 full-time jobs, and an expansion of an existing business must result in a 10-percent increase in employment. Approved applicants may receive refunds based on the payment of sales and use taxes, corporate income taxes, intangible personal property taxes, emergency excise taxes, excise taxes on documents, ad valorem taxes paid, and insurance premium taxes. Tax refunds are approved by OTTED, with initial application evaluation being conducted by EFI. The refunds are paid to a participating business over a period of several years.

Similar to the QTI program, the Qualified Defense Contractor (QDC) Tax Refund Program, s. 288.1045, F.S., provides for refunds based upon jobs created or saved in Florida through the conversion of defense jobs to civilian production, the acquisition of a new defense contract, or the consolidation of a defense contract. Refunds under both the QTI and QDC programs are subject to annual appropriation by the Legislature and require a specified local government match.

Prior to the 1997 legislative session, s. 288.095, F.S., which governs the Economic Development Trust Fund, specified that OTTED could not approve refunds pursuant to the QTI and QDC programs for a given fiscal year of more than $10 million or the amount appropriated for such refunds -- whichever was less. (See s. 288.095, F.S., 1996 Supp.) Meanwhile, the QDC statute, s. 288.1045(2)(d), F.S., cites a cap of $25 million or the amount appropriated for refunds,

whichever is less. The conflicting figures has resulted in confusion as to which figure governs.
Citing increased activity under the QTI program in particular, administrators expressed concern that the state was fast approaching the $10 million cap and would no longer be able to permit additional businesses to participate in this program. During the 1997 session, the Legislature removed the specific $10 million cap from s. 288.095, F.S., clearing the way for additional use of the program; however, language was retained that refunds may not exceed the amount appropriated for those refunds. During the 1998 session, legislation was considered, but ultimately did not pass, that would have established a combined $30 million cap on the QTI and QDC programs.

Program administrators have estimated, given current activity levels, that the QTI refund liability in future fiscal years could approach $30 million before beginning to plateau. If for any fiscal year the Legislature appropriates an amount less than the amount that will come due during that fiscal year, participating businesses would receive a portion of the tax refund for which they originally contracted (s. 288.095(3)(b), F.S.). Failure of the state to honor fully its QTI contracts may have serious ramifications for Florida's economic development image.

The future of the QTI program was a topic of considerable discussion at the September 1998 Economic Summit and EFI board meetings in Lake Buena Vista. Members of the economic development community raised the issue of changing the program to a up-front tax credit, rather than a refund of taxes already paid, or establishing a permanent appropriation mechanism, such as that in place for the professional sports franchise and spring training facility program under ss. 288.1162 and 212.20, F.S. Under the sports facility program, the Department of Revenue is authorized to distribute a specified amount monthly to certified applicants from state sales tax revenues (s. 212.20(5)(f)5., F.S. (1998 Supp.)).

In addition to the issue of QTI funding, administrators and economic development officials are exploring some programmatic or administrative changes to QTI, including:

- Establishing a specific per-job tax refund amount in statute, rather than the current system of providing a maximum amount in statute and allowing OTTED to approve awards up to that level;
- Eliminating some of the information that is currently required on the application form, in order to simplify the application process; and
- Revising the local approval and matching fund process to allow for initial approval by a designated local official or organization, to be followed up by passage of a local match resolution by the local governing authority, which would postpone the necessity of going before the governing authority until it is certain the business is approved for, and plans to accept participation in, the QTI program.

NCSL Task Force Recommendations on Incentives

In its report on state economic development policy, the NCSL Tax Force on Economic Incentives issued several recommendations to legislators who may be reviewing or revising incentives. These recommendations included:

- Take a broad, inclusive view of the state's business climate.
- Create a competitive and equitable state business tax policy.
- Establish general criteria for grants of economic development incentives.
- Education and work force training are important components of state policy.
- Physical infrastructure is an important component of state policy.
- Make incentives dependent upon performance.
- Monitor incentives.
- Evaluate the effectiveness of existing incentives.
- Coordinate state and local incentive programs.
- Improve disclosure of economic incentive terms and package.

(*A Review of State Economic Development Policy*, NCSL, March 1998, p. 42.)

With respect to evaluation of the effectiveness of existing incentives, the task force report noted that "[n]o one knows much about the effectiveness of economic incentive programs" and that as a result legislators are forced to rely on anecdotal evidence which cannot establish whether the economic activity would have occurred anyway. Among the approaches identified by the task force to deal with this difficulty are: establishing a clear and common understanding on the outcomes an incentive is suppose to have, building accountability into programs from the start, linking program benefits to performance, and imposing sunset provisions on programs in order to foster evaluation. (*Id.* at pp. 53-54.)

Fla. Economic Development Performance Measures

Florida has taken several significant steps related to ongoing monitoring and evaluation of the performance of the state's economic development efforts. First, through the performance-based program budgeting process, Florida has established output and outcome measures for what is titled an "Economic Improvement Program." This program includes the Governor's Office of Tourism, Trade, and Economic Development (OTTED) and the various public-private partnerships and similar entities that enter into contracts with OTTED for the performance of activities to improve and maintain the economic health of Florida. Specifically, the 1998-99 General Appropriations Act (GAA) contains distinct performance measures and standards for OTTED; Enterprise Florida, Inc., and its boards; the Florida Sports Foundation; the Governor's Council on Physical Fitness; FAVA/CA; the Florida Commission on Tourism; and the Spaceport Florida Authority. Under proviso-language requirements, measures have been developed as well for the Black Business Investment Board.

Secondly, as part of proviso language first included in the fiscal year 1997-98 GAA, OTTED is required to develop and maintain "Program Work Plans" incorporating contractual performance measures for the entities with which it contracts. The plans must be designed to reflect quarterly goals and objectives and must be submitted to the legislative budget committees. In addition, under s. 14.2015(7), F.S. (1998 Supp.), OTTED is required to develop performance measures, standards, and sanctions for each program for which it contracts with another entity.

RECOMMENDATIONS

This report does not make recommendations on continuing, revising, or funding Florida's existing economic development programs. Rather the information presented in this report is designed to provide an overview of the services the state is currently purchasing with its economic development appropriations. This information may also assist in the identification of future funding priorities. In addition, the effectiveness issues raised by program administrators and economic development organizations may provide the basis for additional research by the committee or, ultimately, generation of an economic development legislative package for the 1999 Regular Session.

Through the appropriations process and performance-based program budgeting, measures are now in place to evaluate over time the performance of the state's various economic improvement efforts. These measures will assist in the evaluation of individual economic development programs. In light of the diversity of Florida's economic development efforts, however, challenges persist in making comparative evaluations across program lines -- such as comparing the performance of a grant program for road improvements to the performance of a program helping businesses to commercialize new technologies. Although factors such as specialization and service of niche markets must be considered when making comparisons, understanding the relationships among programs appears to be important to developing a strategic approach to economic development. Consequently, it is recommended that committee staff work with staff from the Office of Program Policy Analysis and Government Accountability, the Office of Tourism, Trade, and Economic Development, and the Governor's Office of Planning and Budgeting to explore the feasibility of establishing criteria and measures that may help facilitate effectiveness comparisons among multiple programs.

COMMITTEE(S) INVOLVED IN REPORT ***(Contact first committee for more information.)***
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MEMBER OVERSIGHT
Senators W.G. "Bill" Bankhead and Ron Klein