F l o r i d a   L e g i s l a t u r e

Florida Economic Development Program Evaluations – Year 1

REPORT NO. 14-01
1/1/2014

OFFICES OF THE FLORIDA LEGISLATURE:

Office of Program Policy Analysis and Government Accountability &
Office of Economic and Demographic Research

OPPAGA supports the Florida Legislature by providing evaluative research and objective analyses to promote government accountability and the efficient and effective use of public resources. EDR is a research arm of the Florida Legislature principally concerned with forecasting economic and social trends that affect policymaking, revenues, and appropriations. Cover photo by Mark Foley.

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Scope

Chapters 2013-39 and 2013-42, *Laws of Florida*, require the Office of Economic and Demographic Research (EDR) and the Office of Program Policy Analysis and Government Accountability (OPPAGA) to provide a detailed analysis of state economic development programs according to a recurring schedule established in law. The analysis is due to the Legislature by January 1 of each year.

EDR will evaluate and determine the economic benefits, as defined in s. 288.005(1), *Florida Statutes*, of each program over the previous three years. For the purposes of EDR's analysis, the calculation of economic benefits is the same as the state's return on investment. The analysis will also identify the number of jobs created, the increase or decrease in personal income, and the impact on state gross domestic product from the direct, indirect, and induced effects of the state's investment in each program over the previous three years.

OPPAGA will evaluate each program over the previous three years for effectiveness and value to the state's taxpayers and include recommendations for consideration by the Legislature. The analysis may include relevant economic development reports or analyses prepared by the Department of Economic Opportunity, Enterprise Florida, Inc., or local or regional economic development organizations; interviews with parties involved; or any other relevant data.

Seven programs are scheduled for review by January 1, 2014.

1. Capital Investment Tax Credit Program (CITC)
2. Qualified Target Industry Tax Refund Program (QTI)
3. Brownfield Redevelopment Bonus Refund Program
4. High Impact Performance Incentive Grant Program (HIPI)
5. Quick Action Closing Fund Program (QAC)
6. Innovation Incentive Program
7. Enterprise Zone Program

As part of its review, OPPAGA gathered information on projects that received incentives during at least one year of the evaluation period—Fiscal Years 2009-10, 2010-11, and 2011-12. Information included

- job, capital investment, incentive payment, and administrative cost data provided by the Department of Economic Opportunity (DEO);
- tax credit, tax refund, and administrative cost data supplied by the Department of Revenue (DOR);
- incentive claims processing information and administrative cost data provided by the Department of Financial Services (DFS);
- incentive program information and administrative cost data from Enterprise Florida, Inc. (EFI); and
- survey and interview responses submitted by incentive recipients, economic development organizations, and site selection consultants.

In addition, OPPAGA conducted a file review to assess the completeness of Department of Economic Opportunity incentive recipient project files and to make observations about the department's incentive monitoring activities.

Background

Incentive Program Descriptions

The seven economic incentive programs under review include tax credits, tax refunds, and cash grants. The primary purpose of each program is to attract and grow businesses in Florida, which includes promoting job creation and capital investment. In addition, several programs have other goals, such as revitalizing economically distressed areas and encouraging emerging technology cluster development. (See Exhibit 1-1.)

Businesses that receive incentives from these programs enter into multi-year agreements with the state. These agreements include a schedule for meeting performance requirements such as job creation and capital investment; for some programs, businesses have as many as 20 years to meet these requirements.

Exhibit 1-1
The Seven Programs Under Review Include Tax Credit, Tax Refund, and Cash Grant Incentives[1]

Program	Incentive Type	Statutory Reference
Capital Investment Tax Credit Program – Attracts and grows capital-intensive industries by providing an annual credit against the corporate income tax that is available for up to 20 years in an amount equal to 5% of the eligible capital costs generated by a qualifying project. Eligible capital costs include all expenses incurred in the acquisition, construction, installation, and equipping of a project from the beginning of construction to the commencement of operations. Businesses must make an investment of at least $100 million to receive the full credit.	Tax Credit	s. 220.191, *F.S.*
Qualified Target Industry Tax Refund Program – Encourages the creation of high-skill jobs and the growth of corporate headquarters and other target industries. Provides a tax refund of $3,000 per new job created in Florida through the expansion of existing Florida businesses or the location of new ones ($6,000 per job within an enterprise zone or rural county). A business is eligible for a $1,000 per job bonus if it pays over 150% of average wages in the area and a $2,000 per job bonus if over 200%. Projects must be supported by the local community, which provides funding for 20% of the incentive.	Tax Refund[2]	s. 288.106, *F.S.*
Brownfield Redevelopment Bonus Refund Program – Encourages development of abandoned, idled, or underused industrial and commercial sites where expansion or development is complicated by actual or perceived environmental contamination. Designed to work with Qualified Target Industry projects, paying a bonus of $2,500 per job over and above the QTI refund; provides a $2,500 per job refund for non-QTI projects that meet job creation and capital investment requirements.	Tax Refund[2]	s. 288.107, *F.S.*
High Impact Performance Incentive Grant Program – Provides grants to pre-approved applicants in certain high-impact sectors. Once approved, the high-impact business receives 50% of the eligible grant upon commencement of operations and the other half once full employment and capital investment goals are met.	Grant	s. 288.108, *F.S.*
Quick Action Closing Fund Program – Provides a discretionary grant to respond to unique requirements of wealth creating projects. When Florida is vying for intensely competitive projects, the funds may be utilized to overcome a distinct quantifiable disadvantage after other available resources have been exhausted. Funds are paid out based on specific project criteria outlined in a performance-based contract between the company and the state.	Grant	s. 288.1088, *F.S.*
Innovation Incentive Program – Targets funds to businesses that expand or locate in Florida, are likely to serve as catalysts for the growth of existing or emerging technology clusters, or significantly affect the regional economy in which they expand or locate.	Grant	s. 288.1089, *F.S.*
Enterprise Zone Program – Encourages the revitalization of economically distressed areas in Florida by providing credits against Florida's sales tax or corporate income tax to businesses located in an enterprise zone for hiring zone residents. Corporate income tax credits are available for businesses that construct or expand their facilities within a zone. Sales tax refunds are available when businesses purchase business equipment or building materials for use within a zone.	Tax credits and refunds	ss. 212.08(5)(g) and (h), 212.08(15), 212.096, 220.181, and 220.182, *F.S.*

[1] We classified the seven programs in the same manner that Enterprise Florida, Inc., categorizes them in its statutorily required annual incentives report.

[2] This incentive is not a traditional tax refund program. Rather, the incentive is administered similarly to a cash grant program, with the Legislature annually appropriating funds to be "refunded" to businesses after they meet job creation requirements.

Source: *Florida Statutes*.

Incentive Program Administration

Several entities help administer the state's economic incentive programs. Four entities are primarily responsible for administering the seven incentive programs currently under review: Enterprise Florida, Inc., the Department of Economic Opportunity, the Department of Revenue, and the Department of Financial Services. (See Exhibit 1-2.) In addition, the Department of Environmental Protection provides information to DEO to ensure that a project receiving a Brownfield Redevelopment Bonus Refund is within a designated brownfield area.

Exhibit 1-2
Several Entities Are Involved in Administering the State's Economic Incentive Programs

Enterprise Florida, Inc.	Department of Economic Opportunity	Department of Revenue	Department of Financial Services
▪ Advertises and markets the state's incentive programs ▪ Assists businesses that apply for incentives ▪ Works with community partners to gather information that would be useful to applicants (e.g., potential sites, area demographics, and local incentives) ▪ Reviews applications for completeness ▪ Recommends projects to DEO for receipt of incentives	▪ Oversees the application/ certification approval process[1] ▪ Administers, reviews, and approves incentive claims ▪ Monitors businesses' compliance with program agreements, which specify the required number of jobs, average wage, capital investment, and other performance goals ▪ Decertifies/terminates businesses that do not meet performance requirements[1]	▪ Upon request, may verify information in any claim submitted for tax credits with regard to employment, wage levels, or payment of sales, corporate, or property taxes ▪ Reviews and approves enterprise zone tax credit and refund applications ▪ Provides enterprise zone data to DEO for annual reporting	▪ Reviews, approves, and issues incentive payments ▪ Examines information provided by DEO, including the request for payment and supporting documentation (e.g., incentive agreement and evidence of meeting performance requirements) ▪ Requests additional information as necessary ▪ Authorizes payment and issues a warrant

[1] The department certifies applicants as Qualified Target Industry businesses and decertifies business that fail to comply with incentive agreement terms.

Source: OPPAGA analysis of information from agency documents, interviews, and the *Florida Statutes*.

It should be noted that the 2011 Legislature created the Department of Economic Opportunity by repealing the Department of Community Affairs, the Agency for Workforce Innovation, and the Office of Tourism, Trade and Economic Development (OTTED) and transferring some or all of their functions to the new department; this included economic incentive-related functions previously performed by OTTED.[1] A primary purpose of the legislation was to streamline the state's economic development and workforce functions. The new department began operations on October 1, 2011.

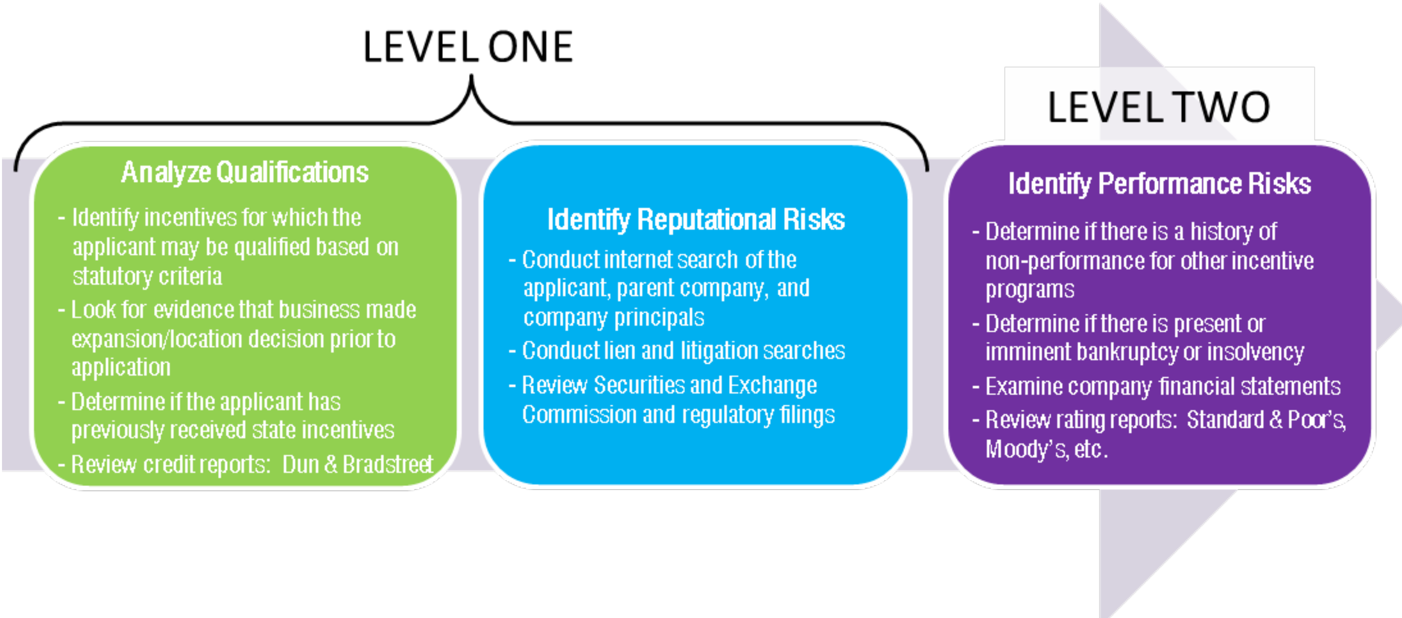
In general, economic incentive programs are subject to the same application and approval process.[2] Businesses interested in expanding or relocating in Florida learn about the state's economic incentive programs through several channels, including Enterprise Florida, Inc. (EFI), state and local economic development organizations, and private site selection consultants. EFI provides businesses a variety of services prior to application filing, including evaluating businesses' needs, identifying potential site locations, and providing information on state and local incentives that might aid businesses with expansion or relocation projects. EFI also helps businesses complete the incentive application, which may require coordination with local economic development organizations and/or consultants. Businesses can apply for more than one incentive to support their expansion or relocation projects.

[1] Chapter 2011-142, *Laws of Florida*.

[2] The exception is the Enterprise Zone Program, which is not subject to the same application process as other incentive programs. See Chapter 8 for a discussion of the administration of the Enterprise Zone Program.

Once a company begins the application process, EFI notifies the Department of Economic Opportunity so that the department may begin its formal due diligence process to determine the business's statutory eligibility and financial standing. DEO's due diligence process has two levels. Level one due diligence is conducted for all incentive applications and includes determining whether the company satisfies statutory criteria for program participation and if the business is in good financial and legal standing. Level two due diligence is used for grant incentive programs (e.g., Quick Action Closing Fund) and considers the business's credit risk and other factors that could affect its ability to repay the state should it be unable to meet incentive performance requirements. (See Exhibit 1-3.)

Exhibit 1-3
DEO Uses a Due Diligence Process to Assess a Business's Statutory Eligibility and Financial Soundness



Source: Department of Economic Opportunity.

Once due diligence is complete, DEO staff review the application for completeness; if the application is not complete, the applicant is notified, and additional information is requested. Once the application is deemed complete, the department determines what state incentives and associated amounts may be available to the applicant, and a recommendation is made to DEO's executive director to approve or disapprove the application. The executive director will approve or disapprove the application within 10 business days after receipt and issue a letter of certification to the applicant. DEO will develop a contract or agreement with the applicant that specifies the total incentive amount, the performance conditions that must be met to receive payment, the schedule for payment, the sanctions for failure to meet performance conditions; the contracts may also include representations, warranties and other covenants.

All of the economic incentive programs currently under review are subject to performance monitoring. Each incentive recipient is required to provide documentation to the Department of Economic Opportunity demonstrating that it met contractual requirements.[3] DEO is required to validate the

[3] The exception is Enterprise Zone Program incentive recipients. DEO does not oversee the processing of these incentive claims; this function is handled by the Department of Revenue.

performance of all businesses that receive incentives and report this validation in its annual incentives report.[4, 5] Businesses that are found to be out of compliance with performance requirements may be terminated from the incentive program. Incentive grant contracts also contain penalties for non-performance, including clawback provisions that the state uses to recapture funds.[6]

The compliance monitoring process entails reviewing information obtained directly from businesses, state and federal agencies, local governments, and other independent information sources to document contractual performance for every claim submitted to DEO. Monitoring can also involve identifying circumstances that may justify exemptions, waivers, or reduced prorated refunds based on the actual performance of the business. Compliance monitoring is conducted annually and is based on the calendar year, although some programs are required to provide quarterly updates (e.g., the Innovation Incentive Program). For most incentive programs, by January 31st of each year, businesses must submit claims along with documentation demonstrating performance during the previous calendar year; businesses can request that the department grant a 30-day extension to this due date.[7] DEO staff or the department's contractor must review claims to assess the appropriateness and completeness of the documentation for three performance areas: 1) employment, wages, and benefits; 2) capital expenditures; and 3) tax payments. For each area, documentation requirements vary among incentive programs. (See Exhibit 1-4.)

Exhibit 1-4
Incentive Programs Have Varying Documentation Requirements for Demonstrating Performance

	Performance Requirement				
	Employment	Wages	Benefits	Capital Expenditures	Tax Payments
Capital Investment Tax Credit Program	✓			✓	
Qualified Target Industry Tax Refund Program	✓	✓			✓
Brownfield Redevelopment Bonus Refund Program	✓	✓	✓	✓	✓
High Impact Sector Performance Grant Program	✓			✓	
Quick Action Closing Fund Program	✓	✓		✓	
Innovation Incentive Program	✓	✓		✓	
Enterprise Zone Program	✓				✓

Source: Department of Economic Opportunity and the *Florida Statutes*.

[4] Section 288.907, *F.S.*

[5] Until 2012, performance was monitored and verified by a third-party vendor under a contract with DEO. This function was transferred to DEO staff in September 2012, at which point the department's Division of Strategic Business Development became responsible for conducting compliance monitoring. In 2013, the Legislature directed DEO to again contract with a third-party auditor for compliance services, and the department released a Request for Proposals (RFP) in August 2013 to solicit a contractor to perform these functions. The department reissued the RFP in November 2013; bids were due in December 2013.

[6] Clawbacks stipulate that a firm not achieving agreed-upon employment performance requirements must pay back all or a portion of the incentive it received.

[7] The exception is the Innovation Incentive Program, in which participants receive payments according to a schedule established in their contracts. These schedules vary for each participant, because contract effective dates vary.

Documents used to confirm **employment, wages, and benefits** include information that businesses report to the Department of Revenue for unemployment compensation purposes; company-generated lists of employees, wages, and benefit payments; and federal W-2 and 1099 forms. Evidence of **capital expenditures** includes invoices; cancelled checks; bank statements; and credit card statements. For **tax payments,** documentation may include corporate income tax data from the Department of Revenue; invoices and cancelled checks; bank statements; and data from county tax collectors.

Once the supporting documentation provided by the business has been reviewed and other evidence from state, federal, or local agencies has been identified, department or third-party vendor staff determine whether the company has met contract requirements. If the company has not met contract requirements, the agreement will be terminated unless there is a legislatively authorized mechanism for renegotiation.[8] If the company has met contract requirements, the claims packet is submitted to DEO management for approval and for most incentives is then forwarded to the Department of Financial Services for its review, approval, and issuance of a payment.[9] The packet that DEO submits to DFS includes information regarding a business's incentive package, a voucher schedule, a request for payment, and supporting documentation (e.g., incentive agreement and contract summary form that reflects deliverables). If information is not sufficient for DFS to authorize payment, the department requests additional data from DEO prior to issuing a warrant.

DEO uses a classification system to reflect the status of incentive projects. Status categories include active, inactive, terminated, and complete.

- **Active**: Currently in progress and in good standing with regard to meeting contract performance goals
- **Inactive**: Has received one or more incentive payments after meeting a portion of contract commitments, but is ineligible for future payments
- **Terminated**: Incentive contract was executed but business has not received any payments and is ineligible for future payments
- **Complete**: Business has met the terms of its contract and received all eligible incentive payments

To examine program costs and performance, OPPAGA asked DEO to provide data for projects that received incentives (i.e., grant payments, tax refunds, and tax credits) during the three-year review period (Fiscal Years 2009-10 through 2011-12). Of the 192 projects that met our criteria, 124 (65.6%) were active, 42 (21.9%) were complete, and 26 (13.5%) were inactive. Several projects in our sample received incentives from multiple programs.[10] Specifically, the 192 projects received 234 program incentives. The vast majority (79.7%) of projects received one incentive, 18.8% received two, and 1.6% received three.

Incentive Program Costs

Incentive costs. The 192 projects that received state incentives during Fiscal Years 2009-10 through 2011-12 have received a total of $668.9 million; this amount comprises all incentives received, including those received prior to the three-year period. Most projects (166) received incentives from the Qualified Target Industry Tax Refund Program, while only 2 projects received High Impact Performance

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[8] An example of such a mechanism is an "economic recovery extension," which DEO can grant to businesses participating in the Qualified Target Industry Program if certain conditions are met. See s. 288.106(5)(b), *F.S.* In addition, the department has the authority to negotiate contractual amendments, which may also extend the schedule for meeting performance requirements.

[9] The exception is the Innovation Incentive Program, in which participants have tri-party trust agreements with DEO and the State Board of Administration (SBA). Under these agreements, the SBA invests undisbursed funds and makes payments to participants according to a disbursement schedule, upon DEO's approval.

[10] Two projects in our sample had incentives that were terminated; they received incentives for other programs under review.

Incentives. The Innovation Incentive Program accounted for the highest percentage of incentives received, at 55.1%. (See Exhibit 1-5.)

Exhibit 1-5
Projects Receiving State Incentives in Fiscal Years 2009-10 Through 2011-12 Have Collected $668.9 Million

Program	Number of Projects	Contracted	Received
Brownfield Redevelopment Bonus Refund Program	9	$3,472,500	$1,945,102
Capital Investment Tax Credit Program	8	NA[1]	60,643,426
High Impact Performance Incentive Program	2	2,000,000	1,000,000
Innovation Incentive Program	8	449,690,000	368,043,853
Qualified Target Industry Tax Refund Program	166	120,570,800	54,053,350
Quick Action Closing Fund Program	41	78,180,330	72,257,596
Enterprise Zone Program	NA	NA[1]	110,931,262
Total[2]	**192**	**$653,913,630**	**$668,874,589**

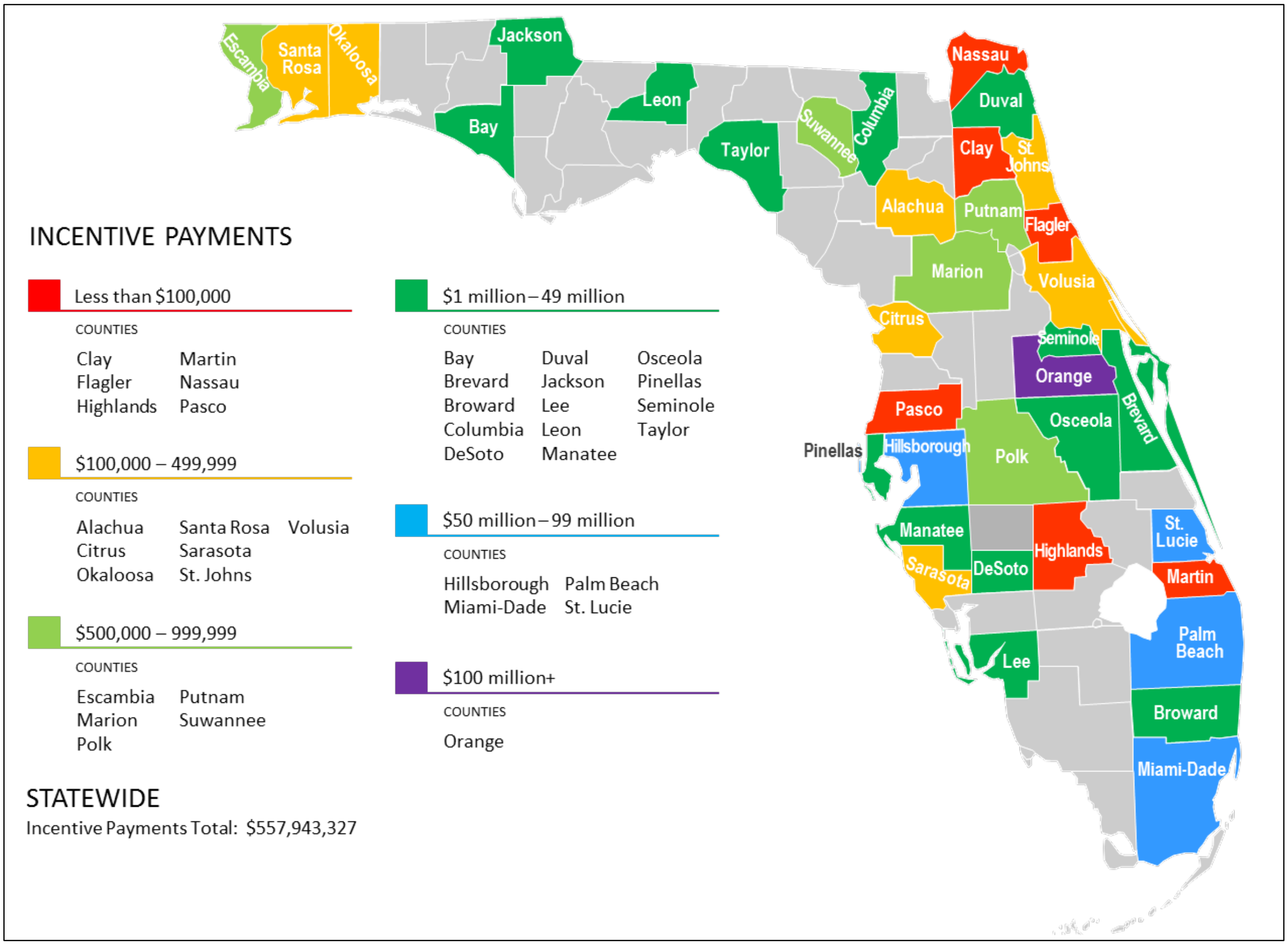
[1] Companies can take a credit against taxes paid.

[2] This total reflects the number of unique incentive projects, but does not include Enterprise Zone incentive recipients.

Source: OPPAGA analysis of Department of Economic Opportunity and Department of Revenue data.

As shown in Exhibit 1-6, incentives were distributed across 37 counties, with totals varying widely by county. For example, during the review period, 6 counties received total incentives of less than $100,000, while 14 received between $1 million and $49 million. Only one county, Orange, received total incentives exceeding $100 million.

Exhibit 1-6
In Fiscal Years 2009-10 Through 2011-12, Projects in 37 Counties Received Incentives[1, 2]



[1] One project could not be allocated to a single county; the incentive amounted to $21.5 million.
[2] Enterprise Zone Program incentives are not included in the exhibit.
Source: OPPAGA analysis of Department of Economic Opportunity data.

Administrative costs. For Fiscal Years 2009-10 through 2011-12, the four state-level entities with incentive program responsibilities reported $6.2 million in administrative costs. The Department of Economic Opportunity had the highest estimated costs, at $4.4 million, while the Department of Financial Services had the lowest, at less than $6,000. (See Exhibit 1-7.)

Exhibit 1-7
Agency Administrative Costs for Economic Incentives Totaled $6.2 Million in Fiscal Years 2009-10 Through 2011-12

Agency	Administrative Costs
Department of Economic Opportunity	$4,382,598
Department of Revenue	1,549,416
Enterprise Florida, Inc.	310,500
Department of Financial Services	5,658
Total Administrative Costs	**$6,248,172**

Source: OPPAGA analysis of data from Enterprise Florida, Inc., and the Departments of Economic Opportunity, Financial Services, and Revenue.

Findings

Incentives Are Important, But Not the Only Factor in Businesses' Decisions to Expand or Locate in Florida; the Majority of Recipients Are Existing In-State Businesses

To better understand businesses experiences with the state's economic incentive programs and the role incentives play in expansion and location decisions, OPPAGA surveyed businesses that received incentives for a single project during Fiscal Years 2009-10 to 2011-12 as well as local economic development organization representatives.[11] In addition, OPPAGA interviewed businesses that pursued multiple projects during this timeframe as well as site selection consultants that assist businesses with location decisions and incentive applications.[12]

Incentives are important, but businesses consider many other factors when making project decisions. Businesses consider a range of issues when evaluating locations for new projects. Site selection consultants noted that companies' initial criteria include infrastructure, permitting, workforce, utilities, land, taxes, quality of life, and economic incentives. As many as 25 states or locations may be considered at first, and as information and discussions with client companies occur, the number of sites is typically reduced to two or three finalist locations.

Our interviews and surveys found that incentives are one of several considerations for business that are developing a preliminary pool of states for potential project sites. Businesses that OPPAGA surveyed and interviewed evaluated a range of business climate considerations that affected their initial considerations and were asked to select the most important factors. When asked to identify the three most important factors that affected their company's decision to remain, locate, or expand in Florida, businesses that received incentives for a single project and responded to the question cited state economic development incentives (55%), local economic development incentives (41%), and the company's existing presence in Florida (45%) as the most important factors. Site consultants and businesses that obtained incentives for multiple projects reported that they considered incentives secondarily and that the state's labor force, regulatory climate, and tax environment were primary considerations.

When asked how important incentives were to the final location decision, 74% of the businesses that received incentives for a single project and responded to the question said incentives were one among many factors, as opposed to being the key decision factor. Businesses that received incentives for multiple projects responded similarly. According to site selection consultants, when site characteristics are equal, incentives become very important.

When asked what role incentives play, 73% of the businesses that received incentives for a single project and responded to the question reported that incentives helped increase the financial feasibility of a project. This is generally consistent with our interviews with businesses that obtained state incentives for multiple projects, as well as site selection consultant interviews. In particular, consultants reported that location significantly influences the cost of doing business. As such, incentives are often used to offset other costs, such as training needs or infrastructure improvement.

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[11] We surveyed 144 of the businesses that received incentives for a single project during the evaluation period; 74 (51%) provided partial responses and 54 (38%) provided complete responses. Most respondent businesses were small or medium-sized firms, with a median national firm size of 300 FTE and median Florida firm size of 170 FTE. We also surveyed 122 local economic development organization representatives; 78 (64%) provided partial responses and 71 (58%) provided complete responses. Respondents were from organizations across the state and included local enterprise zone coordinators.

[12] We interviewed representatives from 7 of the 16 (44%) companies that received state incentives for multiple projects during our timeframe. These were large national or multi-national companies, representing a range of industries (e.g., shipping, manufacturing, financial operations, and retail). In addition, Enterprise Florida, Inc., provided us a list of eight site selection consultants known to frequently conduct business in Florida; we interviewed five (62.5%). The consultants reported that they typically work with large national or multi-national companies.

To the extent that incentives balance location-driven costs, it would seem likely that without incentives, many businesses would not select Florida. However, when asked what would have been the effect on their company's plans to conduct their project in Florida had incentives not been awarded, 64% of businesses responding to the question would have proceeded with their project even without the state incentives. Specifically, 42% of respondents said that without incentives, their company would have proceeded with their project in Florida on a smaller scale, and 22% said that they would have proceeded in Florida with no changes to the project. These findings are consistent with businesses' assertion that incentives are but one of many considerations for project location decisions.

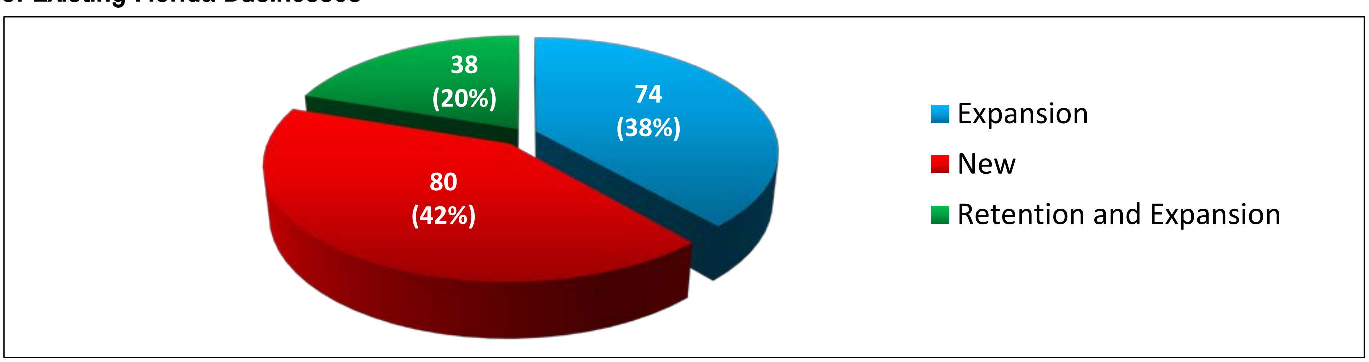
Despite the availability of incentives in Florida, many businesses considered conducting their projects in other states. When asked if they considered pursuing their project in another state, many (56%) of the businesses responding to the question said they considered locating their project in another state; of these, 59% reported receiving an incentive offer from another state. Several of these respondents noted Texas (9, or 28%) and North Carolina (5, or 16%) as states that made incentive offers; other states cited were Alabama, Georgia, and New York. Similarly, businesses that pursued multiple projects in Florida reported considering other states for these projects, with Alabama, Georgia, and Texas being the most frequently mentioned locations.

Site selection consultants that we interviewed noted that although Florida presents a range of advantages, the state has several prominent disadvantages as a project location, which contributes to businesses often considering locations in other states. Disadvantages included high property taxes and energy and land costs. In addition, consultants reported that Florida has limited ready infrastructure across the state and a need for more skilled workforce in manufacturing and information technology industries. Other disadvantages to a Florida site were geographical, with the state's peninsular shape leading to high transportation costs to ship products to other parts of the country. According to site consultants, states that compete with Florida are mostly in the southeast: Alabama, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Texas, and Virginia.

Businesses generally sought incentives to expand their existing Florida operations. We asked businesses that received incentives for a single project to describe the type of project – start-up, expansion, or relocation. Businesses responding to this question most frequently (49%) reported that they sought incentives to expand an existing Florida business. Businesses that obtained incentives for multiple projects also generally noted that they sought incentives for in-state expansion, such as new distribution centers or company headquarters.

This is consistent with the project data provided by DEO. The majority of projects in our sample were expansions of existing Florida businesses rather than introduction of new companies to the state. Specifically, 58% of the projects involved either expansion of existing businesses or retention of existing businesses with the longer-term goal of expansion. (See Exhibit 1-8.)

Exhibit 1-8
The Majority of Projects that Received Incentives in Fiscal Years 2009-10 Through 2011-12 Were Expansions of Existing Florida Businesses



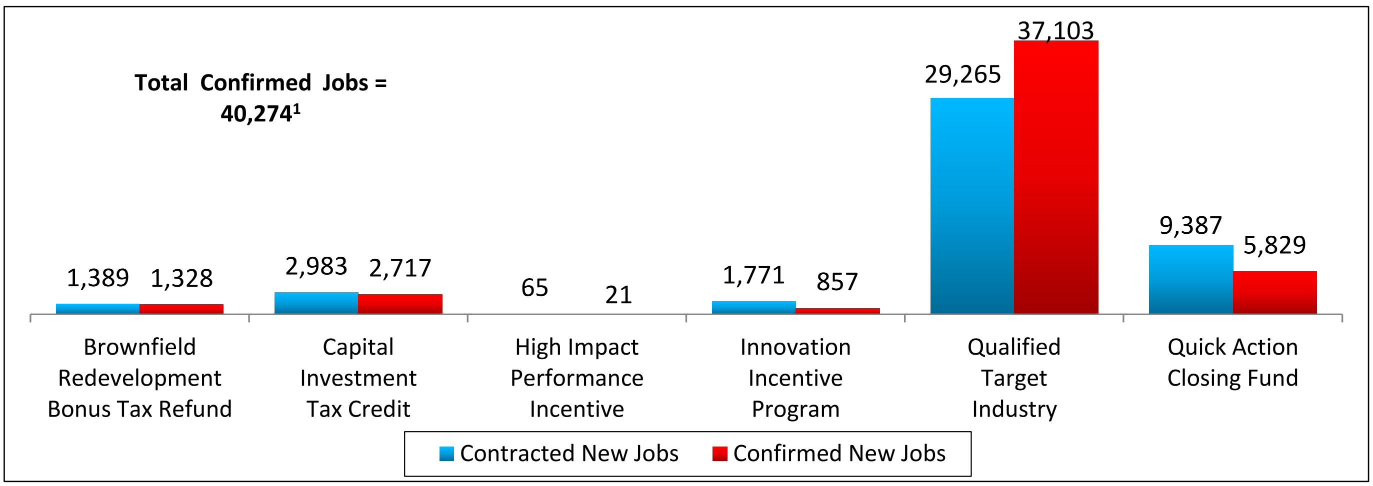
Source: OPPAGA analysis of Department of Economic Opportunity data.

Overall, Incentive Recipients Have Exceeded Job Creation and Capital Investment Requirements; However, Achievement of Performance Goals Varies Significantly by Program

Projects that received incentives between Fiscal Years 2009-10 and 2011-12 created 40,274 new jobs; this amount comprises all jobs, including those created prior to the three-year period. This exceeds the contracted new job requirement (34,429) by 17%.

Of the six incentive programs that have contractual job creation goals, only the Qualified Target Industry Tax Refund Program exceeded requirements. QTI recipients were contracted to create 29,265 jobs and the Department of Economic Opportunity confirmed 37,103 new jobs; this represents 26.8% greater employment than anticipated. Conversely, the High Impact Performance Incentive Program, which is contracted to create 65 jobs, has created 21 (32.3% of the contracted new jobs) to date. However, the HIPI projects included in the analysis are still active. As noted earlier, DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules. (See Exhibit 1-9.)

Exhibit 1-9
Projects that Received Incentives in Fiscal Years 2009-10 Through 2011-12 Have Created Over 40,000 Jobs[1]



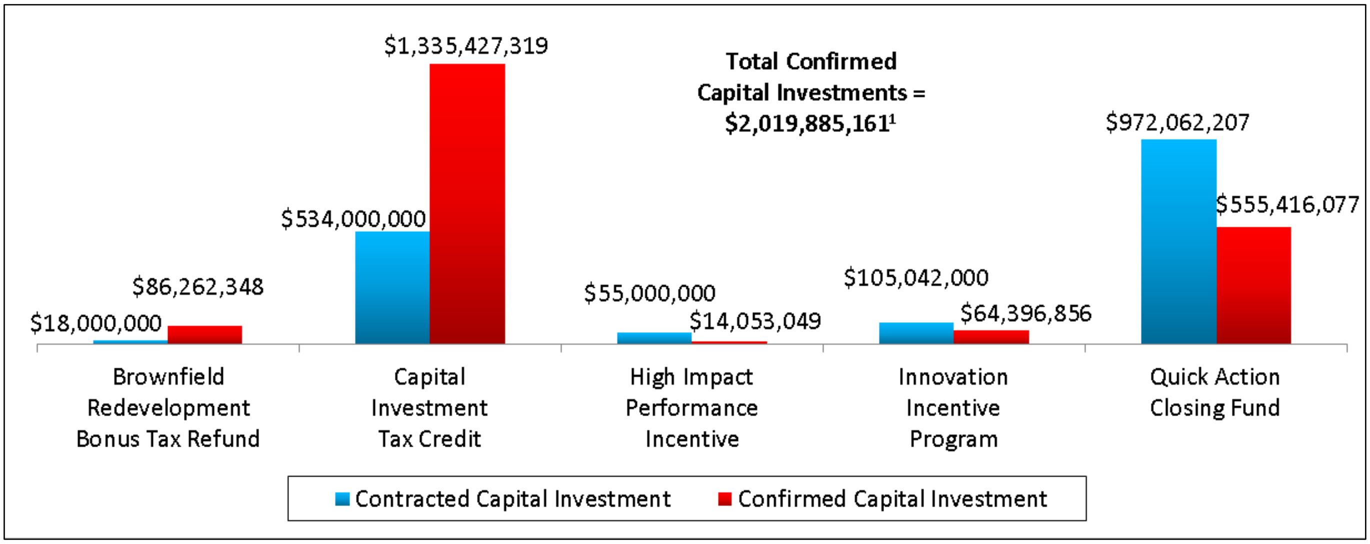
[1] Projects include those with an active status. DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules. Projects receiving funds for multiple incentive programs can count the same jobs across programs. This figure represents an unduplicated count of confirmed new jobs.

Source: OPPAGA analysis of Department of Economic Opportunity data.

A similar trend emerged for capital investment requirements. Projects that received incentives between Fiscal Years 2009-10 and 2011-12 made $2 billion in capital investments; this amount comprises all investments, including those made prior to the three-year period. This exceeds the contracted capital investment requirement ($1.5 billion) by 32.4%.

Of the five incentive programs that have contractual capital investment goals, only the Brownfield Redevelopment Bonus Refund and Capital Investment Tax Credit programs exceeded requirements. Brownfield bonus recipients were contracted to invest $18 million, and DEO confirmed $86.3 million in expenditures; this represents 379.2% greater investment than anticipated. Similarly, CITC recipients were contracted to invest $534 million and confirmed expenditures were $1.3 billion, a difference of 150.1%. As with job creation goals, the High Impact Performance Incentive Program's confirmed capital investments are less than the contracted amounts, $14.1 million compared to $55 million. As noted above, the HIPI projects are currently active and in good standing with regard to adhering to contract performance schedules. (See Exhibit 1-10.)

Exhibit 1-10
Projects that Received Incentives in Fiscal Years 2009-10 Through 2011-12 Have Made More than $2 Billion in Capital Investments[1]



[1] Projects include those with an active status. DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules.

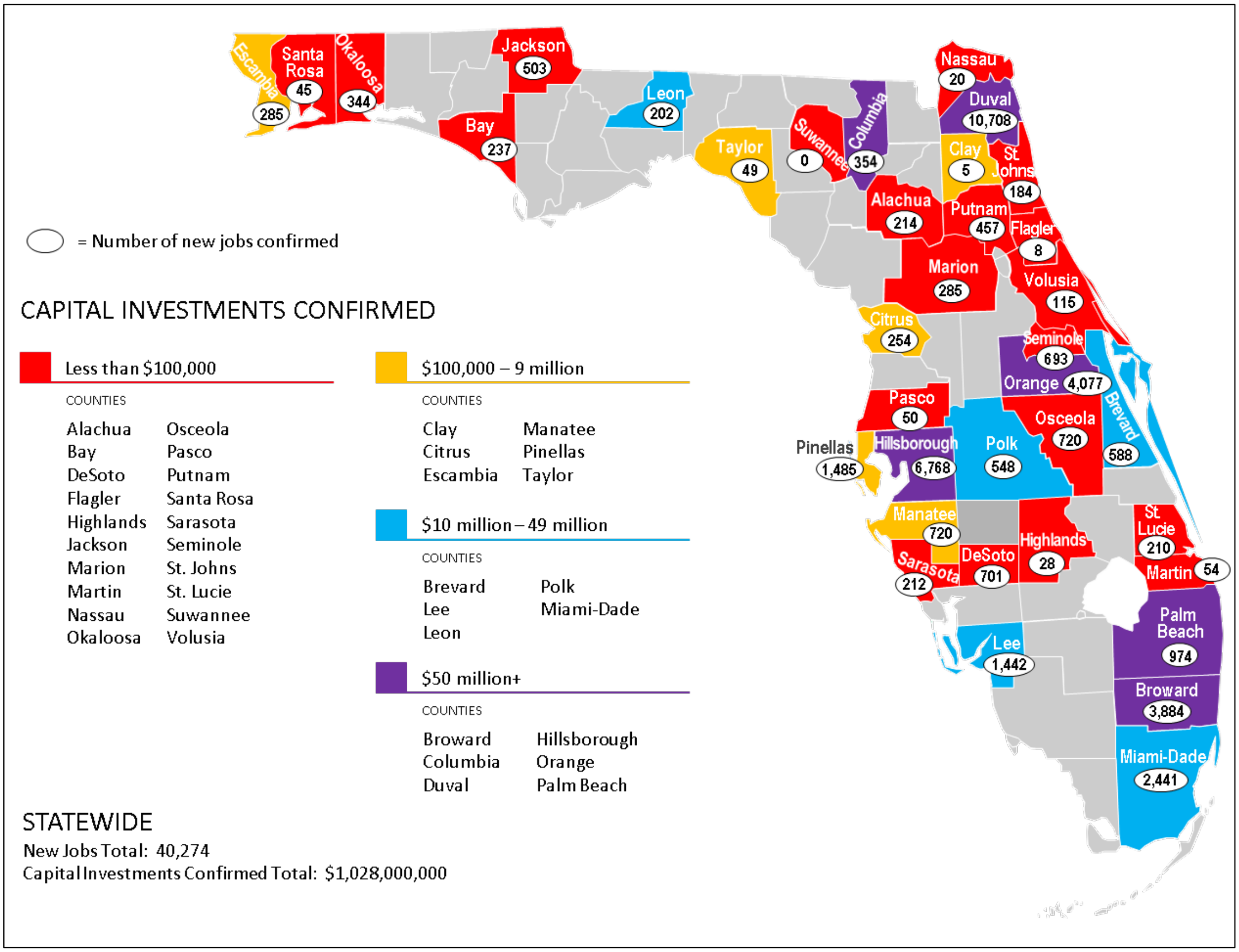
[2] Projects receiving incentives from multiple programs can count the same amount of capital investment across programs. This figure represents an unduplicated count of confirmed capital investment.

Source: OPPAGA analysis of Department of Economic Opportunity data.

The statewide distribution of confirmed jobs and capital investments includes 37 counties, with amounts in both performance categories varying widely by county.[13] For example, with regard to job creation, the number of confirmed new jobs ranged from 0 in Suwanee County to 10,708 in Duval County. In addition, capital investment totals differed greatly, with most counties (20) hosting projects that made capital investments of less than $100,000. Six counties had projects that made capital investments exceeding $50 million. (See Exhibit 1-11.)

[13] Not all of the 192 projects within our sample were required to make capital investments as part of incentive agreements.

Exhibit 1-11
Confirmed New Jobs and Capital Investments Varied Across Counties for Projects that Received Incentives in Fiscal Years 2009-10 through 2011-12[1, 2, 3]



[1] One project could not be allocated to a single county; confirmed capital investments amounted to $1 billion, with 411 new jobs.

[2] Not all of the 192 projects within our sample were required to make capital investments as part of incentive agreements.

[3] Projects include those with an active status. DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules.

Source: OPPAGA analysis of Department of Economic Opportunity data.

Some Incentive Programs Have Not Yet Achieved Other Legislative Goals

In addition to supporting job creation and capital expenditures, some of the state's economic incentive programs have other legislative goals. For example, along with its economic development goals, the Enterprise Zone Program is intended to revitalize and rehabilitate distressed areas and enhance social well-being in the zones. The Innovation Incentive Program is intended to support projects that serve as catalysts for emerging or evolving technology clusters, including creating spin-off companies. Neither incentive program has fully achieved these goals.

Selected enterprise zones generally underperform when compared to similar non-zone areas. The purpose of the Enterprise Zone Program is to establish a process that identifies severely distressed areas and to provide state and local economic incentives to both businesses and homeowners in those areas, with the goal of inducing private investment and enabling revitalization. In analyzing the degree to which such improvements have occurred, we reviewed Department of Economic Opportunity and U.S. Census data to compare changes in business, employment, and wage growth within five selected enterprise zones (Gulf County, Jacksonville, Miami-Dade County, Okeechobee County, and Tallahassee/Leon County); in Fiscal Years 2009-10 through 2011-12, these zones received sales and use tax credits and refunds totaling $73.8 million, which represents 66.5% of the incentives received statewide during the period. We also reviewed median home values, median household income, unemployment rates, and poverty rates in the same five zones and compared this information to the data for similar non-enterprise zone census tracts.

Our analysis found low to mixed results, with the selected enterprise zones meeting some legislative goals but falling short for others. In one of our analyses, two out of five enterprise zones outperformed similar non-zone comparison areas. In our other three analyses, only one of five enterprise zones outperformed similar comparison areas. These results indicate that while there were some successes, in general, the Enterprise Zone Program has not met legislative goals.

According to DEO employment data, between 2005 and 2012, the number of businesses and jobs decreased within the five enterprise zones, but average wages increased. In addition, these growth rates varied significantly among the five zones. For example, wage growth ranged from 3.6% (Gulf County) to 18.8% (Miami-Dade County).

When assessing median home values, we determined that all five zones experienced increases between the 2000 and 2010 Census. However, in 2010 only two of the five enterprise zones (Miami-Dade County and Okeechobee County) had smaller percentages of personal residences valued at $100,000 or less when compared to similar non-zone areas. This shows that there was not an across-the-board increase in property values in enterprise zones that was greater than the increases that occurred in the comparison groups.

Another measure of enterprise zone economic impact is median household income. Our comparison of 2000 and 2010 Census data for the five selected zones and similar non-enterprise zone areas shows that in all selected enterprise zones, median household incomes have increased. However, only one enterprise zone, Miami-Dade County, showed an increase that exceeded that of its comparison non-enterprise zone area.

Unemployment rates increased in four of the five enterprise zones. When comparing enterprise zones to non-enterprise zone areas, Gulf County was the only zone that had a lower unemployment rate than its comparison non-zone area. For poverty rates, enterprise zones also generally fared worse than comparison non-enterprise zone areas. Four of the selected enterprise zones had higher poverty rates in 2010 than in 2000. Moreover, four enterprise zones had poverty rates that exceeded similar non-enterprise zone areas; rate differences ranged from 1% to 12%.

The state's biotechnology clusters are growing slowly; no spinoffs have been created. An industry cluster is generally defined as a geographic concentration of "interconnected companies and institutions in a particular field."[14] Industry clusters are important for economic development, as businesses and research institutes often prefer to locate in areas that already have similar enterprises in order to collaborate and draw upon existing labor markets.

[14] Michael E. Porter, "Clusters and the New Economics of Competition," *Harvard Business Review*, November-December 1998, p. 78. Although institutions in a cluster may be physically close, technology can also allow distant institutions to engage in collaboration.

A 2010 OPPAGA report found that biotechnology clusters had not grown substantially in the six counties where Innovation Incentive Program recipients had established facilities.[15] The report measured biotechnology growth in each county between the time the research institutes were established and December 2008. Our 2013 follow-up review measured biotechnology business and employment growth between December 2008 and December 2011 and found mixed results.[16] The six counties experienced varying rates of business and employment growth within the research and development in the biotechnology sector. Hillsborough, Palm Beach, and St. Lucie counties had the largest increases in business growth, while Orange, Palm Beach, and St. Lucie counties had the largest increases in employment growth. However, some counties experienced small increases or declines during the same period, especially with regard to business growth.

In addition, current Innovation Incentive Program recipients have not created spin-off companies. As part of many incentive agreements, recipients are required to report the number of spin-off business created in Florida as a result of the commercialization of their research. For agreements signed after July 1, 2009, an additional performance condition requires innovation incentive recipients to reinvest up to 15% of net royalty revenues, including revenues from spin-off companies and from the sale of stock received from licensing or transferring inventions, methods, processes, and other patentable discoveries made at recipients' Florida facilities or using Florida-based employees. To date, recipients have created no spin-off companies.

As noted in both OPPAGA reports, biotechnology cluster development can take many years, and while Florida has the potential for additional growth, it faces challenges. The major challenge to furthering cluster development is fostering an environment that translates discoveries into marketable products. Florida and national experts reported that this could be accomplished by supporting spin-off and start-up companies, establishing more incubators and laboratories, linking research ideas with entrepreneurial talent, and conducting additional marketing of the state's biotechnology industry and the Innovation Incentive Program.

DEO's Process for Administering and Monitoring Incentive Programs Could Be Improved

Our review of the Department of Economic Opportunity's administration of economic incentive programs yielded findings similar to those highlighted by recent internal and external reviews. Specifically, DEO's documentation and monitoring processes could be improved. In addition, surveys of incentive recipients and economic development organizations, as well as interviews of site selection consultants, found concerns about the program reporting requirements.

In 2012, DEO's inspector general conducted an internal review to evaluate the processes used to monitor the performance of incentive recipients; the review was two-phased, reviewing the processes of both the department's contractor (phase one) and the department (phase two).[17] The first phase of the audit noted several issues, with particular concern regarding the contractor's lack of internal quality assurance reviews and DEO's failure to formally evaluate the contractor's performance. The second phase of the audit cited changes that could enhance the effectiveness of the department's incentive-related activities, including improved operating policies and procedures and implementation of internal quality assurance procedures. Similarly, a recent external review completed in September 2013 identified various concerns about DEO's process for monitoring the performance of incentive recipients and noted that lack of proper evidential documentation of performance can result in payment of noncompliant incentive claims.[18] (See Exhibit 1-12.)

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[15] *Biotechnology Clusters Developing Slowly; Startup Assistance May Encourage Growth*, OPPAGA Report No. 10-05, January 2010.

[16] *Florida's Biotechnology Industry Is Expanding; Cluster Growth Continues to Slowly Progress*, OPPAGA Report No. 13-06, March 2013.

[17] The reviews also included a survey of businesses that had received incentives. In general, survey respondents positively rated the contractor's performance. However, some respondents expressed concerns about the timeliness of the claims process and responsiveness of the contractor.

[18] This review was conducted by a private firm, Thomas Howell Ferguson, under a contract with DEO. The review period included performance claims submitted and processed between October 1, 2012 and June 30, 2013.

Exhibit 1-12
Several Reviews Have Identified Areas for Improving DEO's Administration and Monitoring of Incentive Programs

Internal and External Review Findings		
Internal Review – Phase One	**Internal Review – Phase Two**	**External Review**
The contractor lacks written operating policies and procedures and a training manual for the administration of contractual requirements.	Comprehensive written operating policies and procedures would ensure that staff is aware of processes necessary to accomplish the department's mission and goals.	There are inconsistencies in the nature of supporting documentation provided by companies related to jobs and wage information.
There is no evidence of the contractor performing internal quality assurance reviews.	An internal quality assurance procedure would enhance contract accountability and increase the chances that errors are detected.	DEO does not require businesses to provide source documentation to support their job and wage data.
There is no evidence of staff training by either DEO or the contractor.	Formalized training provided for all staff assigned to the incentive programs would help ensure that the incentives are being processed according to statutes and in a timely and efficiently manner.	Documentation requirements for capital expenditures vary by program, with contract provisions differing between the Quick Action Closing Fund Program and the Brownfield Redevelopment Bonus Refund Program.
There has been no evaluation of the contractor's performance by DEO; the department should implement more oversight and tracking of the contractor's work.	In future contracts DEO should require corrective action plans when the contractor fails to meet performance standards.	Supporting documentation for employee benefits is not sufficient and should include a detailed description of benefits, eligibility requirements, and a listing of employees including amounts contributed for the benefits of each.
Site visits scheduled every two years do not appear to be frequent enough and could delay corrective action when required; this could also result in client businesses being overpaid or impact future incentive program approvals.	Site visits scheduled every two years do not appear to be frequent enough and could delay corrective action when required; this could also result in client businesses being overpaid or impact future incentive program approvals.	There are no formal, documented policies and procedures for review of incentive claim applications, which could lead to inconsistencies in review procedures related to headcount, wage calculations, proper supporting documents, etc.
	DEO should consider ways to reduce the time it takes to finalize incentive claim packages before they are submitted for payment.	

Source: *Final Report: Management Review of Processes Associated With Tracking and Reporting Economic Development Incentive Programs' Performance Phase One—Contracted Services*, DEO, January 2012; *Final Report: Management Review of Processes Associated With Tracking and Reporting Economic Development Incentive Programs' Performance Phase Two—Division of Strategic Business Development*, DEO, March 2012; *Department of Economic Opportunity Strategic Business Development – Incentive Program Compliance and Assessment Review*, Thomas Howell Ferguson, September 2013.

Our examination of DEO incentive administration and monitoring processes identified similar issues. To evaluate the department's incentive monitoring activities and assess the completeness of incentive recipient project files, we reviewed 73 project files. The files included projects that received incentives from six of the seven programs currently under review; DEO does not maintain files for projects that receive Enterprise Zone Program incentives.

Our review found that several (11%) project files were deficient, missing either documentation or sufficient evidence related to performance requirements (e.g., jobs, wages, and capital expenditures). In one case, the entire project file was missing. File deficiencies included missing general project overview forms, contracts, local resolution documents, and decertification letters. Moreover, some of the files we reviewed lacked evidence of incentive recipient site visits, which are used to confirm job creation and capital investment.

In addition, the types of documents used as evidence of meeting performance requirements varied widely among the files reviewed. For example, evidence for jobs created and wages varied from incentive recipient generated spreadsheets in some files, to Department of Revenue unemployment compensation forms in others. Evidence of capital expenditures and tax payments was similarly inconsistent.

Various stakeholders also expressed concerns about DEO's program administration and incentive reporting requirements. For example, on our survey of incentive recipients, when asked to suggest improvements to the state's economic incentive programs, 32% of those that responded to the question cited the reporting process. Specific responses included the following.

- "Simplify/streamline reporting process."
- "Paperwork and proof of information required is arduous and borderline not worth the grants."
- "The process is overly bureaucratic, requiring extensive hours of preparation, amending, and follow-up."
- "Better examples of precise information needed. Standardized PDF form would be perfect with specific instructions."

Similarly, some site selection consultants that we interviewed reported that the incentive application and reporting process can be burdensome. One consultant said that the process for getting a final answer on an incentive package takes too long and is laborious, while another criticized the quality of DEO's incentive contracts, citing numerous errors (e.g., typographical and grammatical errors and incorrect dates) that the consultant's legal staff had to correct. Moreover, several consultants noted that Florida is at a competitive disadvantage with states that have a more streamlined approval process.

We also identified concerns about DEO's administration of a particular incentive program—the Brownfield Redevelopment Bonus Refund Program. The department is statutorily required to verify that the project site is in a designated brownfield area. However, our initial review of data provided by DEO did not allow us to make this determination for one-third of the brownfield projects in our sample. Specifically, information from the Department of Environmental Protection's brownfields database showed that of the 24 projects that received an incentive payment during Fiscal Years 2009-10 through 2011-12, 8 projects did not have sufficient location information to make a determination. To facilitate our confirmation of the location of these eight sites, we requested that DEO provide us additional information; the supplemental information was not sufficient for us to verify the projects' locations. Thus, we gathered information from other sources, including company websites and county property appraiser databases, and were able to confirm that all of the eight sites were in designated brownfield areas.

Recommendations

Based on our review of Department of Economic Opportunity administration and monitoring activities and the findings of three recent reviews, we recommend that DEO take the following steps to improve its management of state incentive programs.

Improve the quality and consistency of information used to document incentive program performance. The documentation that the department accepts as proof of contract performance is not standardized and varies significantly from project to project. To improve the consistency of the information submitted by incentive recipients and better facilitate businesses' compliance with reporting requirements, incentive contracts should clearly stipulate the documents that will be accepted as evidence of performance for employment, wages, capital investments, and taxes paid. These documents should be consistent across incentive programs and, to the extent possible, should include official data certified by other government agencies. For example, when applicable, proof of employment and wages could be limited to data from the Department of Revenue's Form RT-6, used by businesses to report employee wages.

Enhance written policies and procedures for review of incentive claims. Internal and external reviews have noted that neither DEO nor its former contractor had written policies and procedures for administering the state incentive program contract requirements. The absence of such policies and procedures can lead to inconsistencies in review procedures related to employment verification, wage calculations, and proper supporting documents; this could account for the inconsistencies that we noted during our file review. To address these concerns, DEO should develop comprehensive written policies and procedures to guide the incentives claims process for both DEO employees and third-party vendors. The procedures should also include internal quality assurance processes, which would likely increase documentation consistency, reduce errors, and help ensure that incentives are being administered in accordance with state law. Such policies and procedures could be used to train new DEO or contractor staff, which would also help to ensure that incentives are being paid and monitored appropriately.

Establish monitoring and evaluation procedures for overseeing the work of the new third-party monitor. According to audit reports, DEO did not conduct a formal evaluation of its former contractor's performance, which significantly limited the department's oversight and tracking of the contractor's activities and deliverables. Given that the department is in the process of selecting a new vendor in accordance with proviso in the 2013 General Appropriations Act, it is an appropriate time to develop a contract monitoring process and to incorporate the process into the contract. The monitoring could include annual performance evaluations, frequent status reports, and contract terms that provide for corrective action when the contractor fails to meet performance standards.

Ensure that documentation of incentive recipient eligibility is properly maintained in project files. We determined that for the Brownfield Redevelopment Bonus Refund Program, the department was unable to provide sufficient information to confirm that incentive recipients were located within designated brownfield areas. DEO's current due diligence process requires that if the applicant is applying for a brownfield incentive, the department should "identify any evidence provided that the site of the project is a brownfield pursuant to applicable law." In addition to reviewing such evidence, the department should contact the Department of Environmental Protection's Brownfield Redevelopment Program and request written confirmation that incentive applicants are in a designated brownfield area and have a site rehabilitation agreement. This written confirmation should be maintained in project files and reflected in DEO's incentive database.

Chapter 2: Capital Investment Tax Credit Program

Background

Program Creation and Development

Purpose. The 1998 Legislature created the Capital Investment Tax Credit Program (CITC) to encourage high-impact sector businesses to make a significant capital investment to build, expand, or locate physical facilities within Florida.[19] Qualifying businesses can reduce corporate income taxes or insurance premiums over a 20-year period through a tax credit based on the amount of capital investment or costs related to the acquisition or construction of a facility. Eligible expenses include the costs of acquiring, constructing, installing, equipping, and financing a qualifying project; this includes all obligations incurred for labor, contractors, subcontractors, and builders. The costs for architectural and engineering services, environmental studies, surveys, and site work can also be included.

CITC qualifying requirements vary based on investment amount and industry sector. There are three tiers for high-impact industries, with investment requirements ranging from $25 million to $100 million. The tier determines what percentage of a business's tax liability that project costs can offset. In addition, businesses in each of the three tiers must create at least 100 new jobs in Florida and continue to maintain employment goals each year from the commencement of operations. For target industries and headquarters, investment requirements range from $100 million to $250 million. These projects also have different annual credit amounts and credit limits as well as higher job requirements. (See Exhibit 2-1.)

Exhibit 2-1
Capital Investment Tax Incentive Qualifying Requirements and Benefits Vary

	Qualifying Project Types				
	High Impact Tier 1	High Impact Tier 2	High Impact Tier 3	Target Industry	Headquarters
Investment Required	$25 Million	$50 Million	$100 Million	$100 Million	$250 Million
Taxes that the Credit can be Applied Against	Corporate Income Tax or Insurance Premium Tax	Corporate Income Tax or Insurance Premium Tax	Corporate Income Tax or Insurance Premium Tax	Corporate Income Tax or Insurance Premium Tax	Corporate Income Tax
Jobs Requirement	100 New	100 New	100 New	100 New, 900 New or Retained	1,500 New
Annual Credit Amount	5% of Eligible Costs	5% of Eligible Costs	5% of Eligible Costs	50% of increased tax liability arising out of the project	Lesser of $15 million or 5% of eligible costs
Annual Credit Limit	50% of tax arising from project	75% of tax arising from project	100% of tax arising from project	50% of increased tax liability arising from project	$15 million per year
Credit Period	20 Years	20 Years	20 Years	5 Years	20 Years
Credit Carryover	None	None	Amounts not used within the 20-year period can be taken between years 21 and 30	None	Annual unused amounts can be carried forward within the 20-year period

Source: *Review of the Capital Investment Tax Credit*, Florida Senate Issue Brief 2012-204, September 2011.

[19] Section 220.191, *F.S.*

After the commencement of operations, businesses can seek corporate tax credits annually on the income generated by or resulting from the qualifying project. The credit is limited to 5% of the total amount of capital investment at the new or expanded facility, over 20 years.[20] The annual credit limit varies depending on tier level, ranging from 50% to 100% of the tax liability. For most projects, tax credits cannot be carried forward if not fully used in any one year; this provision is waived for tier 3 projects with $100 million in investments or headquarter projects with costs of $250 million.[21] In addition, tax credits are generally not transferable, with the exception of new solar panel manufacturing facilities meeting certain requirements.[22] However, state law allows credits to be used by companies or entities affiliated with the qualifying business as long as the credit amount does not increase or extend the period within which the credit can be used.[23]

History. The Legislature has enacted numerous changes to the Capital Investment Tax Credit Program since its inception. Specifically, the definitions of qualifying businesses and criteria for transferability have been amended several times.

Qualified Businesses. Every three years, Enterprise Florida, Inc., researches and recommends the business sectors that should be designated as high impact; the Department of Economic Opportunity makes the final decision regarding these designations.[24] High-impact sectors have evolved over time and currently include the following business sectors (designation dates).

- Transportation Equipment (Aviation/Aerospace) (1997)
- Information Technology (1999)
- Life Sciences (2002)
- Financial Services (2004)
- Corporate Headquarters (2006)
- Clean Energy (2008)

In addition, several significant amendments to the program allow businesses outside of the high-impact sectors to qualify for the tax credit. These significant amendments are described below.

Target Industry Business Sector. In 2005, CITC was expanded to allow target industry businesses to qualify. Like high-impact sectors, target industries are determined by DEO in consultation with EFI.[25] Target industry business sectors are determined through consideration of specified criteria, such as industry growth potential, industry stability, and average industry wages.[26] Target industries include all high-impact sectors and businesses working in homeland security and defense; target industry designations are reviewed every three years.[27]

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[20] The income for the new or expanded facility must be segregated from that attributed to the business as a whole in order to calculate the tax credit.

[21] For tier 3 projects, if the credit is not fully used in any one year due to insufficient tax liability, the unused amounts may be used later in any one year or years beginning with the 21st year of operation and ending with the 30th year. Headquarter projects may carry forward unused credits during the 20-year period.

[22] To be eligible to transfer credits, the solar manufacturing facility must generate a minimum of 400 jobs within six months after commencement of operations with an average salary of $50,000. The transferring company must secure a certificate reflecting the tax credit amount transferred to the receiving company and must use the credit within one year.

[23] Section 220.191 (3) (c), *F.S.*

[24] At the time when CITC was created, there was not a set three-year schedule for reviewing high-impact designations. The three-year schedule was established by s. 20, Ch. 2010-147, *Laws of Florida*.

[25] Section 5, Ch. 2005-282, *Laws of Florida*.

[26] Section 288.106(2)(q), *F.S.*

[27] Section 288.106(2)(q), *F.S.*

Corporate Headquarters Facilities. In 2006, CITC was expanded to allow any business that located its corporate headquarters in Florida (in an enterprise zone or brownfield) to qualify for the credit, regardless of whether the business was in a high-impact or target industry business sector.[28] Tax credits for a corporate headquarters facility may only be taken against corporate income tax liability.

Transferability. Generally, CITC may not be transferred or sold to other businesses. However, the 2008 Legislature amended the program to allow certain qualifying projects to transfer unused tax credits.[29] To qualify to transfer a tax credit, the project must be a new solar panel manufacturing facility that generated at least 400 jobs within six months after commencing operations and paid an average annual salary of at least $50,000. In addition, the 2011 Legislature amended the program to allow certain tax credits to be used outside of the 20-year period following commencement of project operations.[30] The amendment only applies to high-impact sector projects that qualify for tier 3 ($100 million in capital investments). Companies can claim any unused credit amounts beginning in the 21st year after commencing operations, but not later than the 30th year after commencement.

Incentives Received

It is the responsibility of the business seeking a Capital Investment Tax Credit to demonstrate to the Department of Revenue that it meets the job creation and capital investment requirements required by law. State law requires that the business and DOR agree on the calculation of income for the credit each year. These agreements are in the form of a Technical Assistance Advisement, which is a binding opinion from DOR.

Once project construction is complete, the Department of Economic Opportunity must audit the business's eligible capital costs before it can take a Capital Investment Tax Credit. At that time, DEO may make changes to the original certified costs. Each year, the department reviews the status of qualifying projects to ensure job requirements are being met and to issue an annual credit letter detailing how much potential tax credit the business can take for that year.

Eight companies were Corporate Income Tax Credit participants during our project's timeframe, but only six of them claimed these credits during Fiscal Years 2009-10 through 2011-12. These projects have received a total of $60.6 million in credits; this amount comprises all claims made, including those made prior to the three-year period.

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[28] Chapter 2006-55, *Laws of Florida*.

[29] Chapter 2008-227, *Laws of Florida*.

[30] Chapter 2011-223, *Laws of Florida*.

Program Performance

Contractual Performance Indicators

Corporate Income Tax Credit recipients are typically required to create specific numbers of new jobs as one condition for receiving annual credits. CITC projects do not have to seek a credit every year in the 20-year timeframe. Exhibit 2-2 shows that CITC recipients had created a total of 2,717 new jobs at the end of the three-year review period compared to 2,983 contracted new jobs (91.1% of contracted jobs). The difference between contracted jobs and confirmed jobs is due to companies having additional years of the project remaining. These companies have 20 years to achieve the total contracted jobs, and none of them has been receiving the credit for that length of time.

Exhibit 2-2
Projects that Received CITC Incentives in Fiscal Years 2009-10 Through 2011-12 Have Created Over 2,700 Jobs

Project Status	Number of Projects	Contracted New Jobs	Confirmed New Jobs
Completed	0	0	0
Active	8	2,983	2,717
Inactive	0	0	0
Total	**8**	**2,983**	**2,717**

Source: OPPAGA analysis of Department of Economic Opportunity data.

In addition to job creation, CITC agreements require that companies make minimum capital investments. Projects included in Exhibit 2-3 made $1.3 billion in confirmed capital investment compared to $534 million in contracted investments, a difference of 150.1%.

Exhibit 2-3
Projects that Received CITC Incentives in Fiscal Years 2009-10 Through 2011-12 Have Made Over $1.3 Billion in Capital Investments

Project Status	Number of Projects	Contracted Capital Investment	Confirmed Capital Investment
Completed	0	$0	$0
Active	8	534,000,000	1,335,427,319
Inactive	0	0	0
Total	**8**	**$534,000,000**	**$1,335,427,319**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Chapter 3:
Qualified Target Industry Tax Refund Program

Background

Program Creation and Development

Purpose. The 1994 Legislature created the Qualified Target Industry Tax Refund Program (QTI) to encourage the recruitment or creation of high-paying, high-skilled jobs within specific industries.[31] In exchange for meeting job creation goals, eligible businesses receive refunds for certain state and local taxes, including: corporate income taxes; insurance premium taxes; taxes on sales, use, and other transactions under Ch. 212, *Florida Statutes*; intangible personal property taxes; ad valorem taxes; excise taxes; and communications services taxes.

Currently, the list of Qualified Target Industries includes clean technology, life sciences, information technology, aviation/aerospace, homeland security/defense, financial/professional services, emerging technologies, other manufacturing, and corporate headquarters. Call centers and shared service centers also may qualify if certain economic criteria are met, and special consideration is given to industries that facilitate the development of the state as a hub for domestic and global trade and logistics.

In addition to being within a qualified target industry, businesses must meet other criteria to be eligible for QTI incentives. These conditions include

- creating at least 10 jobs if the business is relocating to the state, or increasing employment by 10% if the business is expanding in the state;
- paying an annual wage of 115% of the average private sector wage in the area for which the business located or the statewide private sector average wage; and
- receiving a local government resolution of commitment to the business relocation or expansion and financial support amounting to 20% of the incentive amount.[32, 33]

Qualified Target Industry tax refund amounts are based on the number of jobs created, the percentage of annual average area wages paid, the expansion or location site, and whether the business is a designated high-impact sector business. Businesses that meet QTI Program eligibility requirements, produce the number of required jobs, and pay at least 115% of the average area annual wage receive a base tax refund of $3,000 per job ($6,000 per job in an enterprise zone or a rural community). As shown in Exhibit 3-1, there are also additional per job incentives when businesses meet other statutorily defined criteria. For example, projects located in a brownfield are eligible for an additional $2,500 per job through the Brownfield Redevelopment Bonus Refund Program. (See Chapter 4 for a discussion of the brownfield program.)

[31] Section 288.106, *F.S.*

[32] At the request of the local government and EFI, DEO may waive the wage requirement if the business is in a rural community, enterprise zone, brownfield, or is a manufacturing project located anywhere in the state and paying 100% of the average private sector wage in the area the business will locate.

[33] A business applying for the program can request exemption from the local financial support requirement if the project is located in a brownfield or a rural community. However, such an exemption would reduce the tax refund to 80% of the total tax refund allowed.

Exhibit 3-1
Qualified Target Industry Refund Amounts Increase When Specific Conditions Are Met

Criteria	Additional Per Job Refund Amount
Business pays 150% of the state average private sector annual wage	$1,000
Business pays 200% of the state average private sector annual wage	$2,000
Local government financial support is equal to the state's QTI incentive amount[1]	$1,000
Business is in a high-impact sector	$2,000
Business increases product exports through Florida seaports or airports by at least 10% in value or tonnage	$2,000
Business is located in a brownfield	$2,500

[1] The local financial support may be in the form of ad valorem tax abatement or the appraised market value of publicly owned land or structures deeded or leased to the QTI business.

Source: Section 288.106, *Florida Statutes.*

Several restrictions apply to tax refund amounts and distributions. For example, the single year refund amount cannot exceed $1.5 million ($2.5 million in an enterprise zone). Moreover, in any fiscal year, a business may not receive more than 25% of the tax refund amount specified in its agreement with the state.

History. The Legislature has enacted numerous changes to the Qualified Target Industry Tax Refund Program since its inception. In 2010, the Legislature expanded the definition of jobs to allow temporary employees to qualify as full-time equivalent positions; changed the definition of a new business by removing the requirement that the business must not have existed before beginning operations in Florida; and modified the criteria and considerations that Enterprise Florida, Inc., must use when identifying target industries.

In response to the Deepwater Horizon oil spill, the 2011 Legislature authorized DEO to waive wage or local financial support eligibility requirements between July 1, 2011 and June 30, 2014 for eight counties that were disproportionately affected by the disaster.[34] In addition, the Legislature modified the definition of economic benefit and required that special consideration be given to industries that facilitate the development of the state as a hub for domestic and global trade and logistics. Most recently, the 2013 Legislature removed the statutory restriction on the total refund amount; modified the application process; and eliminated the application evaluation criteria that the department must consider businesses' long-term commitment when reviewing applications.[35] Prior to the legislation, the total refund amount that a business received could not exceed $7 million ($7.5 million in an enterprise zone).

Incentives Received

By January 31st of each year, businesses must submit Qualified Target Industry tax refund claims along with documentation demonstrating performance during the previous calendar year. The Department of Economic Opportunity or its contractor verifies employment and wages, as well as payment of taxes eligible for refund. Once verification is complete, DEO submits a claims packet to the Department of Financial Services for its review, approval, and issuance of a refund.

Based on the verified information supplied in applications for Qualified Target Industry Tax Refunds, DEO submits its annual Legislative Budget Request for funds to satisfy future claims, the Legislature appropriates funds, and the funds become available after the beginning of the new fiscal year. The total

[34] The eight counties are Bay, Escambia, Franklin, Gulf, Okaloosa, Santa Rosa, Walton, and Wakulla.

[35] Chapter 2013-96, *Laws of Florida*.

amount of the tax refunds approved by the department in any fiscal year may not exceed the total amount appropriated. For Fiscal Year 2013-14, the Legislature appropriated a lump sum of $45.5 million to a group of economic development programs that includes the Qualified Target Industry Tax Refund Program. Of this amount, DEO proposes distributing $12.1 million to QTI incentives; this includes $11.9 million in obligated funds and $180,000 in contingency funds. The department also proposes distributing $1.1 million to QTI incentives with Brownfield Redevelopment Bonus Refunds; this includes $936,250 in obligated funds and $120,000 in contingency funds.

The 166 projects that received QTI tax refunds during Fiscal Years 2009-10 through 2011-12 have received a total of $54.1 million; this amount comprises all funds received, including payments made prior to the three-year period. Total contracted funds for the 166 projects amounts to $120.6 million. Fifteen of the 166 projects also received Brownfield Redevelopment Bonus Refunds. (See Chapter 4 for a discussion of the brownfield program.)

Program Performance

Contractual Performance Indicators

Qualified Target Industry Tax Refund recipients are contractually required to create a certain number of jobs that pay an annual average wage of at least 115% of the average private sector wage. At the conclusion of our three-year review period, recipients had created 37,103 new jobs, 26.8% more than the 29,265 new jobs that they were contracted to create. (See Exhibit 3-2.)

Exhibit 3-2
Projects with QTI Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Created Over 37,000 Jobs

Project Status	Number of Projects	Contracted New Jobs	Confirmed New Jobs
Completed	40	8,133	13,619
Active	97	16,851	19,811
Inactive	28	3,531	3,173
Terminated	1	750	500
Total	**166**	**29,265**	**37,103**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Other Analyses

Given the state's significant investment in Qualified Target Industries, we conducted location quotient and shift share analyses of some of these industries to gain a better understanding of how they are performing in Florida relative to regional, state, and national economic and employment trends.[36] We analyzed the six QTI industries that fall within the top 20 industries with the highest average annual wages in Florida: manufacturing; wholesale trade; information; finance and insurance; professional, scientific, and technical services; and management of companies and enterprises. These analyses found growth in two sectors—finance and insurance and professional, scientific, and technical services. Our analysis also showed that Florida's finance and insurance and management of companies and enterprises sectors outpaced national and industry employment trends.

For each of the six targeted industries we calculated location quotients to compare Florida's employment in each industry to national employment in each industry. Location quotients exceeding 1.0 indicate that Florida's level of employment in an industry exceeds the national level of employment in that industry. A positive change in location quotient from 2004 to 2012 indicates that the industry increased as a portion of Florida's economy relative to the national economy. Our analysis found that Florida's employment in four of the six industry sectors (manufacturing, wholesale trade, information, and management of companies and enterprises) was less than the national level in those sectors in 2012. However, three of these four industry sectors increased their location quotient between 2004 and 2012. (See Exhibit 3-3.)

[36] We calculated location quotients and shift-share analyses using Florida and national employment data.

Exhibit 3-3
Location Quotients for Six Florida Qualified Target Industries Show Growth for Several Sectors

Florida Industry (NAICS)	Location Quotient (2004)	Location Quotient (2012)
Manufacturing (31-33)	0.46	0.47
Wholesale Trade (42)	0.97	0.98
Information (51)	0.91	0.88
Finance and Insurance (52)	0.99	1.05
Professional, Scientific, and Technical Services (54)	1.00	1.00
Management of Companies and Enterprises (55)	0.69	0.73

Source: OPPAGA analysis of U.S. Bureau of Labor Statistics data.

We also conducted a shift-share analysis for each of the six selected QTI industry sectors. Shift-share represents how much of the employment growth or decline in the state industry was due to the national or state economy, the national or state level trend within the particular industry, and the state's characteristics. Shift-share is composed of the three components listed below. The change in employment between 2004 and 2012 equals the sum of the three components.

- **National (or State) Growth Share** is the change in employment due to the growth of the overall national or state economy. If the national or state economy is growing, then you expect to see a positive change in each industry in the state.
- **Industry Mix Share** is the change in employment due to the growth (or decline) of the overall industry in the nation or state relative to the growth (or decline) of the overall national or state economy.
- **Regional Shift** is the change in employment due to the state's characteristics (also referred to as "competitive share"). It is the most important component. A positive regional shift indicates the state industry is outperforming the national or state trend. A negative effect indicates that the state industry is underperforming compared to the national or state trend.

Our shift share analysis showed that Florida's finance and insurance sector and management of companies and enterprises sector outpaced national and industry employment trends, while manufacturing, wholesale trade, information, and professional, scientific, and technical services sectors all underperformed. (See Exhibit 3-4.)

Exhibit 3-4
Shift-Share Analysis for Six Florida Qualified Target Industries Shows the State Outpacing the Nation in Two Sectors

Florida Industry (NAICS)	Florida Employment Change (2004-2012)	National Growth Share	Industry Mix Share	Florida Shift
Manufacturing (31-33)	-72,184	7,729	-71,904	-8,009
Wholesale Trade (42)	-6,197	6,429	-5,616	-7,010
Information (51)	-33,653	3,327	-26,141	-10,839
Finance and Insurance (52)	-7,404	6,759	-21,366	7,203
Professional, Scientific, and Technical Services (54)	48,045	7,990	59,049	-18,994
Management of Companies and Enterprises (55)	14,297	1,380	11,171	1,745

Source: OPPAGA analysis of U.S. Bureau of Labor Statistics data.

Chapter 4: Brownfield Redevelopment Bonus Refund Program

Background

Program Creation and Development

Purpose. The 1997 Legislature created the Brownfield Redevelopment Bonus Refund Program to encourage redevelopment and job creation within designated brownfield areas.[37] Brownfield sites are abandoned, idled, or underused properties where expansion or redevelopment is complicated by actual or perceived environmental contamination. The program is voluntary and intended to achieve several environmental and economic development goals, including

- rehabilitating contaminated sites;
- preventing premature development of green space;
- reducing blight;
- reusing existing infrastructure;
- creating jobs; and
- increasing capital investment.

To be eligible for the Brownfield Redevelopment Bonus Refund, applicants must either be a qualified target industry business or demonstrate a fixed capital investment of at least $2 million in mixed-use business activities and provide benefits to its employees.[38] In addition, the proposed project must create at least 10 new full-time permanent jobs, not including any construction or site rehabilitation jobs.

The program provides a tax refund for each new job created in a designated brownfield. Eligible businesses receive tax refunds for certain state and local taxes paid, including corporate income taxes; insurance premium taxes; taxes on sales, use, and other transactions under Ch. 212, *Florida Statutes*; intangible personal property taxes; ad valorem taxes; excise taxes; and communications services taxes. Businesses may receive a tax refund up to 20% of the average annual wage for each new job created in a designated brownfield area up to a maximum of $2,500 per new job. Businesses certified by the Qualified Target Industry Program also may receive Brownfields Redevelopment Bonus Refunds of $2,500 per new job created. (See Chapter 3 for a discussion of the QTI Program.)

History. The Legislature has enacted numerous changes to the Brownfield Redevelopment Bonus Refund Program since its inception. For example, in 2009, the Legislature adopted language requiring the governing board of the county or city where the project will be located to adopt a resolution recommending that certain types of businesses be approved for program participation and added criteria requiring fixed capital investments of at least $500,000 in brownfield areas that do not require site cleanup.

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[37] Section 288.107, *F.S.*

[38] According to state law, a "mixed-use project" is the conversion of an existing manufacturing or industrial building to mixed-use units that include artists' studios, art and entertainment services, or other compatible uses.

In response to the Deepwater Horizon oil spill, the 2011 Legislature authorized DEO to waive wage or local financial support eligibility requirements between July 1, 2011 and June 30, 2014 for eight counties that were disproportionately affected by the BP Gulf Oil Spill.[39]

Most recently, the 2013 Legislature made significant changes to the program, including amending the term "brownfield area eligible for bonus refunds" to specify that an eligible area is a brownfield site for which a rehabilitation agreement with the Department of Environmental Protection or a local government delegated by DEP has been executed under the Brownfields Redevelopment Act. The legislation also

- removed the requirement for capital investments of at least $500,000 in brownfield areas that do not require site cleanup;
- removed language that allowed for contiguous brownfield areas that may not be contaminated to be eligible for the program;
- added brownfield sites to the list of eligible redevelopment sites where building materials used to convert manufacturing or industrial buildings to housing units or mixed-use units are exempt from sales taxes; and
- removed the requirement of submitting a local resolution that recommends that a business be approved.

Incentives Received

By January 31st of each year, businesses must submit Brownfield Redevelopment Bonus Refund claims for refunds scheduled to be paid the following July 1st. The Department of Economic Opportunity or its contractor verifies required job information. Claims confirmation includes verifying employment and wage levels as well as the payment of taxes with the appropriate agency or authority, including the Department of Revenue or a local government. DEO approves claims for bonus refund payments and authorizes the refund amount for the fiscal year within 30 days of claim receipt.

Based on the verified claims information, DEO submits its annual Legislative Budget Request for funds to satisfy future claims and the Legislature appropriates funds that become available after the beginning of the new fiscal year. Appropriated funds to pay brownfield redevelopment bonuses are deposited into the Economic Development Incentives Account. The total amount of the bonus refunds approved by the department in any fiscal year may not exceed the total amount appropriated. The department monitors the amount of approved refunds compared to the amount appropriated. When approved refunds exceed the appropriation amount, DEO must determine the amount of each refund claim by dividing the amount appropriated for tax refunds by the projected total claims for the fiscal year; this calculation must be completed by July 15th of each year. For Fiscal Year 2013-14, the Legislature appropriated a lump sum of $45.5 million to a group of economic development programs that includes the Brownfield Redevelopment Bonus Refund Program. Of this amount, DEO proposed distributing $1 million to bonus refunds; this includes $893,125 in obligated funds and $120,000 in contingency funds.

The nine projects that received standalone Brownfield Redevelopment Bonus Refunds during Fiscal Years 2009-10 through 2011-12 have been paid a total of $1.9 million; this amount comprises all funds received, including payments made prior to the three-year period. Total contracted funds for the nine projects amount to $3.5 million.[40] (See Exhibit 4-1.)

[39] The eight counties are Bay, Escambia, Franklin, Gulf, Okaloosa, Santa Rosa, Walton, and Wakulla.

[40] In addition, 15 Qualified Target Industry Tax Credit projects received a brownfield bonus. See Chapter 3 for a discussion of the Qualified Target Industry Tax Refund Program.

Exhibit 4-1
In Fiscal Years 2009-10 Through 2011-12, Nine Businesses Received $1.9 Million in Brownfield Redevelopment Bonus Refunds

Company	County	Contract Date	Industry	Contracted	Received
Global Stevedoring, LLC	Duval	9/9/2005	Transportation/Warehousing	$112,500	$85,374
IKEA US East, LLC	Hillsborough	5/6/2008	Retail Trade	562,500	89,207
McKibbon Hotel Management, Inc.	Hillsborough	4/10/2007	Management of Companies	247,500	113,135
Publix Super Markets, Inc.	Miami-Dade	3/18/2005	Retail Trade	250,000	200,000
Samsonite Corporation	Duval	5/1/2007	Wholesale Trade	132,500	53,000
Target Corporation	Miami-Dade	1/31/2007	Wholesale Trade	362,500	250,157
Wal-Mart Stores East, LP – Auburndale	Polk	9/30/2005	Retail Trade	592,500	450,537
Wal-Mart Stores East, LP – Escambia	Escambia	5/14/2007	Retail Trade	500,000	239,500
Wal-Mart Stores East, LP – Inverness	Citrus	9/30/2005	Retail Trade	712,500	464,190
Total				**$3,472,500**	**$1,945,102**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Program Performance

Contractual Performance Indicators

Brownfield Redevelopment Bonus Refund recipients are contractually required to create at least 10 new full-time permanent jobs, not including any construction or site rehabilitation jobs. At the conclusion of our three-year review period, refund recipients had created 1,328 new jobs, or 95.6% of the 1,389 new jobs that they were contracted to create. More than half of the projects are active. DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules. (See Exhibit 4-2.)

Exhibit 4-2
Projects with Brownfields Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Created Over 1,300 Jobs

Project Status	Number of Projects	Contracted New Jobs	Confirmed New Jobs
Completed	4	667	656
Active	5	722	672
Inactive	0	0	0
Total	**9**	**1,389**	**1,328**

Source: OPPAGA analysis of Department of Economic Opportunity data.

In addition to job creation, Brownfield Redevelopment Bonus Refund recipients are required to demonstrate a fixed capital investment in mixed-use business activities.[41] The nine projects that received payments during our timeframe have made over $86.2 million in confirmed capital investment (379.2% more than of their contract amount). (See Exhibit 4-3.)

Exhibit 4-3
Projects with Brownfields Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Made Over $86 Million in Capital Investments

Project Status	Number of Projects	Contracted Capital Investment	Confirmed Investment
Completed	4	$8,000,000	$53,455,837
Active	5	10,000,000	32,806,511
Inactive	0	0	0
Total	**9**	**$18,000,000**	**$86,262,348**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Of the 24 brownfield projects (9 brownfield bonus standalone, 15 brownfield bonus and QTI) that received at least one incentive payment during Fiscal Years 2009-10 through 2011-12, 15 had confirmed contamination.[42] Information from the Department of Environmental Protection's brownfield database showed that of the 15, cleanup had been completed for 5 and was ongoing for 7 of the sites. The remaining three contaminated sites have restrictive covenants that provide site-specific controls for eliminating or managing potential exposure to contamination, including prohibitions on certain land uses (e.g., recreation and hotels or lodging).

[41] Recent legislation removed the requirement for capital investments of at least $500,000 in brownfield areas that do not require site cleanup. Thus, the current requirement is $2 million.

[42] Three of the 15 funded projects were at the same site location.

Chapter 5: High Impact Performance Incentive Grant Program

Background

Program Creation and Development

Purpose. The 1997 Legislature created the High Impact Performance Incentive (HIPI) Grant Program to increase Florida's competitive position by attracting, retaining, and growing high-impact businesses.[43] The economic benefits of the grant program include high quality employment opportunities and major capital investment in industries such as clean energy, biomedical technology, information technology, silicon technology, and transportation equipment manufacturing.

To be eligible for the grant program, a business must be certified as high impact. This process has two components. First, Enterprise Florida, Inc. selects and designates which sectors are high impact. Second, the Department of Economic Opportunity certifies businesses; DEO reviews applications, determines if companies are eligible (including assessing whether businesses fit into the high-impact sector designation), and enters into agreements.

HIPI Program qualifying guidelines vary based on amount invested and the industry sector. There are three tiers for non-research and development industries and three tiers for research and development industries. (See Exhibit 5-1.) Using these guidelines, the department may negotiate qualified HIPI grant awards for any single qualified high-impact business. The conditions that specify the commencement of operations and the grant amount that the business is eligible to receive are detailed in an agreement between the business and the Department of Economic Opportunity. Fifty percent of the grant funds are available upon certification of the commencement of operations; this commencement must occur with two years and six months of being certified as a high-impact business. To obtain the remaining 50% of funds, total employment goals and investment requirements must be achieved by the date specified in the company's agreement.

[43] Section 288.108, *F.S.*

Exhibit 5-1
High Impact Performance Incentive Guidelines Vary by Project Type

	Qualifying Project Types					
	Non-Research and Development Tier 1	Non-Research and Development Tier 2	Non-Research and Development Tier 3	Research and Development Tier 1	Research and Development Tier 2	Research and Development Tier 3
Investment	$50 Million	$100 Million	$800 Million	$25 Million	$75 Million	$150 Million
Jobs Creation	50 New	100 New	800 New	25 New	75 New	150 New
Total Performance Grant	$500,000 to $1 Million	$1 Million to $2 Million	$10 Million to $12 Million	$700,000 to $1 Million	$2 Million to $3 Million	$3.5 Million to $4.5 Million
Disproportionately Affected County Waiver	Between 7/1/11 and 6/30/14, the job requirement is waived for any business within Bay, Escambia, Franklin, Gulf, Okaloosa, Santa Rosa, Walton, or Wakulla counties for individual projects receiving $5 million with the approval of the Governor. Individual projects receiving between $5 million and less than $10 million require legislative approval.					
Payout Schedule	50% of grant upon certification by business that operations have commenced; remaining 50% of grant upon certification by business that operations have commenced and the full investment and employment goals have been met and verified.					

Source: Section 288.108, *Florida Statutes,* and *2012 Annual Incentives Report,* Department of Economic Opportunity.

History. The Legislature has made relatively minor changes to the High Impact Performance Incentive Grant Program since its inception. In 2009, the Legislature amended the statute to provide 10 days (formerly 5) for DEO to review the application and issue a letter of certification after receiving an application. The 2010 Legislature amended the statute to lower the capital investment and job creation requirement to encourage more business participation. A business with a lower cumulative investment of $50 million and 50 jobs and a research and development category making a cumulative investment of $25 million and 25 jobs is now eligible for grants.

Incentives Received

The total amount of active performance grants scheduled for payment in any single fiscal year cannot exceed $30 million or the specific amount appropriated by Legislature. Should the amount of the appropriation fall short of the payments obligated for the fiscal year, the Department of Economic Opportunity must determine the amount of payments that can be made and notify businesses by August 1st. For Fiscal Year 2013-14, the Legislature appropriated a lump sum of $45.5 million to a group of economic development programs that includes the High Impact Performance Incentive Grant Program.

The two projects that received initial HIPI grant payments during Fiscal Years 2009-10 through 2011-12 have received a total of $1.0 million. Total contracted funds for the projects amounts to $2.0 million. (See Exhibit 5-2.)

Exhibit 5-2
In Fiscal Years 2009-10 Through 2011-12, the State Paid $1 Million to Two HIPI Grants Recipients

Company	County	Contract Date	Industry	Contracted	Received
SunnyLand Solar, LLC	Leon	11/10/2010	Research and Development in the Physical, Engineering, and Life Sciences	$1,000,000	$500,000
SolarSink, LLC	Leon	11/22/2010	Research and Development in the Physical, Engineering, and Life Sciences	$1,000,000	$500,000
Total				**$2,000,000**	**$1,000,000**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Program Performance

Contractual Performance Indicators

High Impact Performance Incentive Grant agreements require that companies create specific numbers of new jobs as one condition for receiving grants. Exhibit 5-3 shows that the two recipients had created a total of 21 new jobs at the end of the three-year review period compared to 65 contracted new jobs (32.3%). However, the HIPI projects included in the analysis are still active. As noted earlier, DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules.

Exhibit 5-3
Projects with HIPI Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Created 21 Jobs

Project Status	Number of Projects	Contracted New Jobs	Confirmed New Jobs
Completed	0	0	0
Active	2	65	21
Inactive	0	0	0
Total	**2**	**65**	**21**

Source: OPPAGA analysis of Department of Economic Opportunity data.

In addition to job creation, HIPI contracts require that companies make minimum capital investments. The two projects that received payments during our timeframe have made over $14 million in confirmed capital investment (25.6% of their target). To receive the balance of the performance grant by the negotiated due dates, these companies will have to document a total of $55.0 million in capital investment, along with the jobs specified above. (See Exhibit 5-4.)

Exhibit 5-4
Projects with HIPI Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Made $14 Million in Capital Investments

Project Status	Number of Projects	Contracted Capital Investment	Confirmed Investment
Completed	0	$0	$0
Active	2	55,000,000	14,053,049
Inactive	0	0	0
Total	**2**	**$55,000,000**	**$14,053,049**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Chapter 6: Quick Action Closing Fund Program

Background

Program Creation and Development

Purpose. The 1999 Legislature created the Quick Action Closing Fund Program (QAC) to enable the state to compete effectively for high-impact business facilities, critical private infrastructure in rural areas, and key businesses in economically distressed urban and rural communities.[44] The program also is intended to maximize the state's ability to mitigate the negative impacts of the conclusion of the space shuttle program and the gap in civil human space flight. Program funding is used as a tool to finalize negotiations for highly competitive projects where Florida is at a competitive disadvantage.

QAC is a discretionary grant incentive that the Governor can access to respond to projects with unique requirements. The incentive may be utilized to compensate for "distinct quantifiable disadvantages" after other available resources have been exhausted. To be eligible for funding from the Quick Action Closing Fund, each project must be in a qualified target industry; have a positive economic benefit ratio of at least five to one; be an inducement to locate or expand in the state; pay an average annual wage of at least 125% of the area-wide or statewide private sector average wage; and be supported by the local community where the project is to be located. These criteria may be waived under extraordinary or special circumstances. For example, a project not meeting all criteria could nevertheless be found to benefit the local or regional economy in a rural area of critical economic concern.

Enterprise Florida, Inc., and the Department of Economic Opportunity jointly review QAC program applications to determine project eligibility. The department evaluates proposals for high-impact business facilities. The evaluation must include the following information.

- Description of the facility
- Number of jobs to be created
- Estimated average annual employee wages
- Statement of any special impacts the facility is expected to stimulate in a particular business sector in the state or regional economy or in the state's universities and community colleges
- Financial analysis of the company
- Historical market performance of the company
- Any independent evaluations and audits of the company
- Statement of the role the incentive is expected to play in the applicant's decision to locate or expand in Florida

Within seven business days of evaluating a project, the department makes a recommendation to the Governor for approval or disapproval. When recommending approval, the department must include proposed performance conditions the project must meet to receive incentive funds.

[44] Section 288.1088, *F.S.*

A business that receives funding must enter into a contract with DEO. The contract must include the total incentive amount and performance conditions the company must meet to receive the funds, such as net new employment, average salary, and capital investment. The contract must also include sanctions for failure to meet these conditions and a statement that payment of funds is contingent on legislative appropriations. Contracts typically require a company to meet certain conditions, such as leasing or purchasing property, before the funds are transferred to an escrow account. Incentive funds are paid out of the escrow account after the business has performed additional actions, such as making a public announcement about the project, making a minimum capital investment, and creating a minimum number of jobs.

History. The Legislature has enacted several statutory changes to the Quick Action Closing Fund Program since its inception. For example, in 2002, QAC was one of numerous economic development programs that the Legislature included in a public records exemption that covered program recipients' identifying information, trade secrets, financial information, and proprietary business information.[45] In 2003, the Legislature gave the Governor the authority to transfer unencumbered program funds to other economic development programs in emergencies or special circumstances and in consultation with the President of the Senate and the Speaker of the House of Representatives.[46] However, in 2006, the Legislature repealed this provision, specified eligibility requirements noted earlier, and directed EFI to evaluate the quality and value of each applicant.[47]

Finally, in 2011, the Legislature specified the roles of the Department of Economic Opportunity and Enterprise Florida, Inc., in the application review and evaluation process, requiring DEO to recommend approval or disapproval to the Governor within seven business days after evaluating a project and authorizing the Governor to approve projects that require less than $2 million in funding without consulting the Legislature.

Incentives Received

The Governor may approve Quick Action Closing Fund projects requiring less than $2 million without consulting the Legislature. For projects requiring at least $2 million but no more than $5 million, the Governor must provide a written description and evaluation to the chair and vice chair of the Legislative Budget Commission at least 10 days prior to final approval. The recommendation must include the proposed performance conditions the project must meet to receive funds.[48] The Legislative Budget Commission must approve funding for any project requiring more than $5 million. For Fiscal Year 2013-14, the Legislature appropriated a lump sum of $45.5 million to a group of economic development programs that includes the Quick Action Closing Fund. Of this amount, DEO proposes distributing $28.9 million to QAC incentives.

The 41 projects that received QAC payments during Fiscal Years 2009-10 through 2011-12 have received a total of $72.3 million; this amount comprises all funds received, including payments made prior to the three-year period. Total contracted funds for the 41 projects amount to $78.2 million. In addition, 33 of the 41 projects were also approved to receive funding from the Qualified Target Industry Tax Refund Program. (See Chapter 3 for a discussion of the QTI program.)

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[45] Chapter 2002-68, *Laws of Florida*.

[46] Chapter 2003-270, *Laws of Florida*.

[47] Chapter 2006-55, *Laws of Florida*.

[48] If the chair, the vice chair, the President of the Senate, or the Speaker of the House of Representatives timely advises the Governor that such action exceeds the Governor's delegated authority or is contrary to legislative policy or intent, the Executive Office of the Governor is to void the release of funds and instruct the department to immediately change such action or proposed action until the commission or the legislature addresses the issue.

Program Performance

Contractual Performance Indicators

Quick Action Closing Fund contracts typically require that companies create specific numbers of new jobs as conditions for receiving funds or avoiding sanctions after receiving funds. Exhibit 6-1 shows that the 41 fund recipients had created a total of 5,829 new jobs at the end of the three-year review period.

For the two completed projects, there were 1,051 confirmed new jobs compared to 1,160 contracted new jobs. Among the 37 active projects, there were 4,778 confirmed new jobs compared to 7,367 contracted new jobs. As noted earlier, DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules.

Exhibit 6-1
Projects with QAC Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Created Over 5,800 Jobs

Project Status	Number of Projects	Contracted New Jobs	Confirmed New Jobs
Completed	2	1,160	1,051
Active	37	7,367	4,778
Inactive	1	410	0
Terminated	1	450	0
Total	**41**	**9,387**	**5,829**

Source: OPPAGA analysis of Department of Economic Opportunity data.

In addition to job creation, Quick Action Closing Fund contracts often require that companies make minimum capital investments. The two completed projects made $74,714,495 in confirmed capital investment compared to $75,700,000 in contracted investment. (See Exhibit 6-2.)

Exhibit 6-2
Projects with QAC Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Made over $555 Million in Capital Investments

Project Status	Number of Projects	Contracted Capital Investment	Confirmed Investment
Completed	2	$75,700,000	$74,714,495
Active	37	874,212,207	480,701,583
Inactive	1	2,150,000	0
Terminated	1	20,000,000	0
Total	**41**	**$972,062,207**	**$555,416,078**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Chapter 7: Innovation Incentive Program

Background

Program Creation and Development

Purpose. The 2006 Legislature created the Innovation Incentive Program to respond expeditiously to economic opportunities and compete for high-value research and development, innovation business, and alternative and renewable energy projects.[49, 50] The program provides funds to research and development projects that conduct basic and applied research in the sciences or engineering, as well as design, develop, and test prototypes or processes. These projects must serve as catalysts for the growth of existing or emerging technology clusters. To date, the program has targeted primarily biotechnology businesses, although it signed a funding agreement with an aircraft-manufacturing firm in 2013 for a research and development center. Florida has aggressively pursued developing a biotechnology industry to diversify the state's economy and create high skill, high wage jobs.[51]

The Innovation Incentive Program provides grants to qualified companies that the Governor approved after consultation with the Legislature. All innovation incentive projects must have a performance-based contract with the state that includes specific milestones that a company must achieve in order for it to receive grant payments. These contracts also include a reinvestment requirement, by which recipients must remit a portion of their royalty revenues back to the state for reinvestment in certain state trust funds.

To qualify for the program, an applicant must at a minimum establish that the jobs created by the project pay an estimated annual average wage of at least 130% of the average private sector wage.[52] In addition, a research and development project must

- serve as a catalyst for an emerging or evolving technology cluster;
- demonstrate a plan for significant higher education collaboration;
- provide a minimum cumulative break-even economic benefit within a 20-year period; and
- receive a one-to-one match from the local community.

History. The Legislature has enacted several statutory changes to the Innovation Incentive Program since its inception. For example, in 2009, the legislature imposed a minimum employment level of at least 35 direct new jobs for each alternative and renewable energy project.[53] It further required Enterprise Florida, Inc., to evaluate proposals for all categories of awards and included additional evaluative criteria for alternative and renewable energy projects. Finally, the 2009 legislation added several provisions that

[49] Section 288.1089, *F.S.*

[50] An innovation business is a business that is expanding or locating in Florida that is likely to serve as a catalyst for the growth of an existing or emerging technology cluster or will significantly impact the regional economy in which it is to expand or locate.

[51] Biotechnology refers to the use of cellular and molecular processes in solving problems and developing products. Advances in biotechnology processes and products have many applications, such as better diagnosing and treating human diseases and improving agricultural crops.

[52] EFI may request a waiver of this requirement for a project located in a rural area, a brownfield area, or an enterprise zone when the merits of the project warrant such action.

[53] Chapter 2009-51, *Laws of Florida*.

must be included in contracts between the state and program recipients, such as payment of above-average wage levels, reinvestment of royalties and other revenues into certain state trust funds, and submittal of quarterly and annual reports to the state agency administering the program.[54]

In 2010, the Legislature amended the statutory definition of jobs to include positions obtained from a temporary employment agency or employee leasing company or through a union agreement or co-employment under a professional employer organization agreement.[55] In 2011, the Legislature transferred Enterprise Florida, Inc.'s, authority to review program proposals to the Department of Economic Opportunity, which was created through the same legislation.[56] In 2013, the Legislature changed the requirement that an applicant provide the state with, at minimum, a break-even return on investment within 20 years to a cumulative break-even economic benefit within 20 years.[57]

In addition, to these legislative changes, there have been Innovation Incentive Program shifts at the agency level. Although the law that created the program does not specifically direct that grants be awarded to biotechnology companies, it was enacted when Florida was actively trying to develop its biotechnology industry. Consequently, the first seven grant recipients were non-profit biotechnology research institutes that were new to the state. However, the most recent recipients include a for-profit biotechnology company and an aerospace manufacturing company, which appears to indicate a shift in program emphasis.

Incentives Received

The Department of Economic Opportunity assesses the performance of companies that receive incentive funds on an annual basis. The assessment varies for each program recipient depending on the requirements specified in its contract. Companies also submit wage information and lists of equipment purchases to the department if required to do by their contracts. Further, each participating company hires an independent auditor to review its financial information, and all participating companies provide the department with quarterly and annual reports. For Fiscal Year 2013-14, the Legislature appropriated a lump sum of $45.5 million to a group of economic development programs that includes the Innovation Incentive Program. DEO did not propose to distribute any of these funds to the program.

The eight projects that received Innovation Incentive Program grant payments during Fiscal Years 2009-10 through 2011-12 have received a total of $368 million; this amount comprises all funds received, including payments made prior to the three-year period. Total contracted funds for the eights projects amount to $449.7 million.[58] Recipients receive incentive payments according to a schedule established in their contract. (See Exhibit 7-1.)

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[54] The wage requirement states that for agreements signed on or after July 1, 2009, jobs created by the recipient of the incentive funds must pay an annual average wage at least equal to the relevant industry's annual average wage or at least 130% of the average private-sector wage, whichever is greater.

[55] Chapter 2010-147, *Laws of Florida*.

[56] Chapter 2011-142, *Laws of Florida*. The 2009 law required Enterprise Florida, Inc. to "evaluate" proposals, while the 2011 law required the department to "review" proposals.

[57] Chapter 2013-42, *Laws of Florida*.

[58] Participants have tri-party trust agreements with DEO and the State Board of Administration (SBA). Under these agreements, the SBA invests undisbursed funds and makes payments to participants according to a disbursement schedule, upon DEO's approval.

Exhibit 7-1
In Fiscal Years 2009-10 Through 2011-12, the State Paid $368 Million to Eight Biotechnology Research Entities

Incentive Recipient	County	Contract Date	Major Activities	Contracted	Received
Sanford Burnham Institute for Medical	Orange	10/30/2006	Studies the fundamental molecular mechanisms of diseases	$155,272,000	$101,505,000
Torrey Pines Institute for Molecular Studies[1]	St. Lucie	11/16/2006	Conducts basic biomedical research related to disease treatment	24,728,000	19,000,000
SRI International	Pinellas	11/22/2006	Studies surface and subsurface marine environments	20,000,000	19,648,853
Hussman Institute for Human Genomics	Miami-Dade	1/9/2008	Explores genetic influences on human health	80,000,000	59,200,000
Max Planck Florida Corporation	Palm Beach	3/12/2008	Uses bio-imaging to study microscopic molecular processes	94,090,000	94,090,000
Vaccine Gene Therapy Institute	St. Lucie	4/17/2008	Develops vaccines and therapeutics for diseases afflicting the elderly	60,000,000	60,000,000
Charles Stark Draper Laboratory, Inc.	Hillsborough	6/30/2008	Develops miniature medical technologies and military guidance systems	15,000,000	14,000,000
IRX Therapeutics, Inc.	Pinellas	10/28/2011	Develops therapies designed to activate patients' immune systems to fight cancer and related diseases	600,000	600,000
Total				**$449,690,000**	**$368,043,853**

[1] The Torrey Pines Institute for Molecular Studies also received $7,272,000 from the Quick Action Closing Fund.

Source: OPPAGA analysis of Department of Economic Opportunity data.

Program Performance

Contractual Performance Indicators

Innovation Incentive Program recipients are contractually required to create a certain number of jobs that pay an annual average wage of at least 130% of the average private sector wage. At the conclusion of our three-year review period, active program recipients had created 857, or 48.4%, of the 1,771 new jobs they were contracted to create by the end of their contract periods. As noted earlier, DEO defines active projects as those that are currently in progress and in good standing with regard to meeting performance goals according to their multi-year contract terms and performance schedules. (See Exhibit 7-2.)

Exhibit 7-2
Projects with Innovation Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Created 857Jobs

Project Status	Number of Projects	Contracted New Jobs	Confirmed New Jobs
Completed	0	0	0
Active	8	1,771	857
Inactive	0	0	0
Total	**8**	**1,771**	**857**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Some incentive agreements for this program also require recipients to make a certain level of equipment investment. Exhibit 7-3 shows the companies' cumulative equipment investment was $64.4 million at the end of the three-year review period.

Exhibit 7-3
Projects with Innovation Incentive Payments in Fiscal Years 2009-10 Through 2011-12 Have Made Over $63 Million in Equipment Investments

Project Status	Number of Projects	Contracted Equipment Investment	Confirmed Equipment Investment
Completed	0	$0	$0
Active	8	105,042,000	64,396,856
Inactive	0	$0	$0
Total	**8**	**$105,042,000**	**$64,396,856**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Other Analyses

In addition to reviewing Innovation Incentive Program recipient's performance, we examined growth in Florida's biotechnology industry and in three sectors within the industry—research and development in biotechnology, pharmaceutical and medicine manufacturing, and medical devices. Our 2013 report analyzed business, employment, and wage data from 2008 through 2011 and made several observations regarding cluster development and biotechnology industry growth.[59]

- The state's biotechnology clusters continue to slowly grow, with the industry's research and development sector demonstrating the most growth.

[59] *Florida's Biotechnology Industry Is Expanding; Cluster Growth Continues to Slowly Progress*, OPPAGA Report No. 13-06, March 2013.

- Overall, the number of biotechnology businesses in Florida increased by 20.1% and average wages increased by 15.5%, but the number of employees decreased by 10%.
- Statewide, only one of the three biotechnology sectors – research and development – experienced growth in all three indicators—businesses (37.7%), employees (44.3%), and average wages (9.2%).
- Innovation Incentive Program recipients contributed to biotechnology research and development employment growth in all six counties where their facilities are located.

Given the state's significant investment in the biotechnology industry, we conducted location quotients and shift-share analyses for industry sectors to gain a better understanding of how they are performing relative to regional, state, and national economic and employment trends.[60] These analyses determined that employment in one sector, research and development in biotechnology, grew significantly between 2008 and 2011 and also outpaced national and industry growth trends.

Location quotients compare Florida's employment in each biotechnology industry sector to national employment in each biotechnology industry sector. Location quotients exceeding 1.0 indicate that Florida's level of employment in an industry exceeds the national level of employment in that industry. A positive change in location quotient from 2008 to 2012 indicates that the industry increased as a portion of Florida's economy relative to the national economy. Our analysis determined that employment in one sector, research and development in biotechnology, grew significantly between 2008 and 2011. (See Exhibit 7-4.)

Exhibit 7-4
Location Quotients for Florida's Biotechnology Industry Show Growth in One Sector

Florida Industry (NAICS)	Location Quotient (2008)	Location Quotient (2011)
Research and Development in Biotechnology (541711)	0.15	0.23
Pharmaceutical and Medicine Manufacturing (325411, 325412, 325413, and 325414)	0.25	0.23
Medical Devices (334510, 334516, 334517, 339112, 339113, and 339115)	0.90	0.81
All Biotechnology (includes 11 NAICS codes)	**0.52**	**0.49**

Source: OPPAGA analysis of Department of Economic Opportunity data.

We also conducted a shift-share analysis of biotechnology industry sectors in Florida. Shift-share represents how much of the employment growth or decline in the state or county industry was due to the national or state economy, the national or state level trend within the particular industry, and the state or county's characteristics. Shift-share is composed of the three components listed below. The change in employment between 2008 and 2011 equals the sum of the three components.

- **National (or State) Growth Share** is the change in employment due to the growth of the overall national or state economy. If the national or state economy is growing, then you expect to see a positive change in each industry in the state or county.
- **Industry Mix Share** is the change in employment due to the growth (or decline) of the overall industry in the nation or state relative to the growth (or decline) of the overall national or state economy.
- **Regional Shift** is the change in employment due to the state or county's characteristics (also referred to as "competitive share"). It is the most important component. A positive regional shift indicates the state or county industry is outperforming the national or state trend. A negative effect indicates that the state or county industry is underperforming compared to the national or state trend.

[60] We calculated location quotients and shift-share analyses using Florida and national employment data.

Our shift share analysis showed that Florida's research and development in biotechnology sector outpaced national and industry employment trends. Conversely, the pharmaceutical and medicine manufacturing and medical devices sectors underperformed national and industry trends. (See Exhibit 7-5.)

Exhibit 7-5
Shift-Share Analysis for Florida's Biotechnology Industry Shows the State's Research and Development Sector Outpacing the Nation

Industry/Sector	Florida Employment Change (2008-2011)	National Growth Share	Industry Mix Share	Florida Shift
Research and Development in Biotechnology	643	-64	46	662
Pharmaceutical and Medicine Manufacturing	-758	-215	-116	-427
Medical Devices	-2,643	-945	801	-2,499
All Biotechnology	-2,757	-1,224	380	-1,913

Source: OPPAGA analysis of Department of Economic Opportunity data.

Chapter 8:
Enterprise Zone Program

Background

Program Creation and Development

Purpose. The 1982 Legislature created the Florida Enterprise Zone Program to provide incentives to induce private investments in economically distressed areas of the state. [61] The program targets areas that chronically display extreme and unacceptable levels of unemployment, physical deterioration, and economic disinvestment. The program has several goals including revitalizing and rehabilitating distressed areas, stimulating employment among area residents, and enhancing economic and social well-being in the areas.

To achieve these goals, the state, county, and municipal governments provide investments, tax incentives, and local government regulatory relief to encourage businesses to invest and locate in designated zones and residents to improve their property. State incentives include job and corporate income tax credits as well as sales tax refunds.[62] (See Exhibit 8-1.)

Exhibit 8-1
The State Offers Many Incentives Through the Enterprise Zone Program

State Enterprise Zone Incentives
Jobs Tax Credit (Sales and Use Tax) s. 212.096, *F.S.* Businesses located in a zone that collect and pay Florida sales and use tax are allowed a monthly sales tax credit for wages paid to new employees who have been employed for at least three months and are zone residents or residents of a rural county in rural enterprise zones.
Jobs Tax Credit (Corporate Income Tax) s. 220.181, *F.S.* Businesses located in a zone that pay Florida corporate income tax are allowed a corporate income tax credit for wages paid to new employees who have been employed for at least three months and are zone residents or residents of a rural county in rural enterprise zones.
Property Tax Credit (Corporate Income Tax) s. 220.182, *F.S.* New or expanded businesses located in a zone are allowed a credit on their Florida corporate income tax equal to 96% of ad valorem taxes paid on new or improved property.
Sales Tax Refund for Building Materials s. 212.08(5)(g), *F.S.* A refund is available for sales taxes paid on the purchase of building materials used to rehabilitate real property located in a zone.
Sales Tax Refund for Business Machinery and Equipment Used in an Enterprise Zone s. 212.08(5)(h), *F.S.* A refund is available for sales taxes paid on the purchase of certain business property that is used exclusively in a zone for at least three years.
Sales Tax Exemption for Electrical Energy in an Enterprise Zone s. 212.08(15), *F.S.* A 50% sales tax exemption on the purchase of electrical energy is available to businesses located in a zone. The exemption is only available if the municipality in which the business is located passed an ordinance to exempt qualified enterprise zone businesses from 50% of the municipal utility tax.

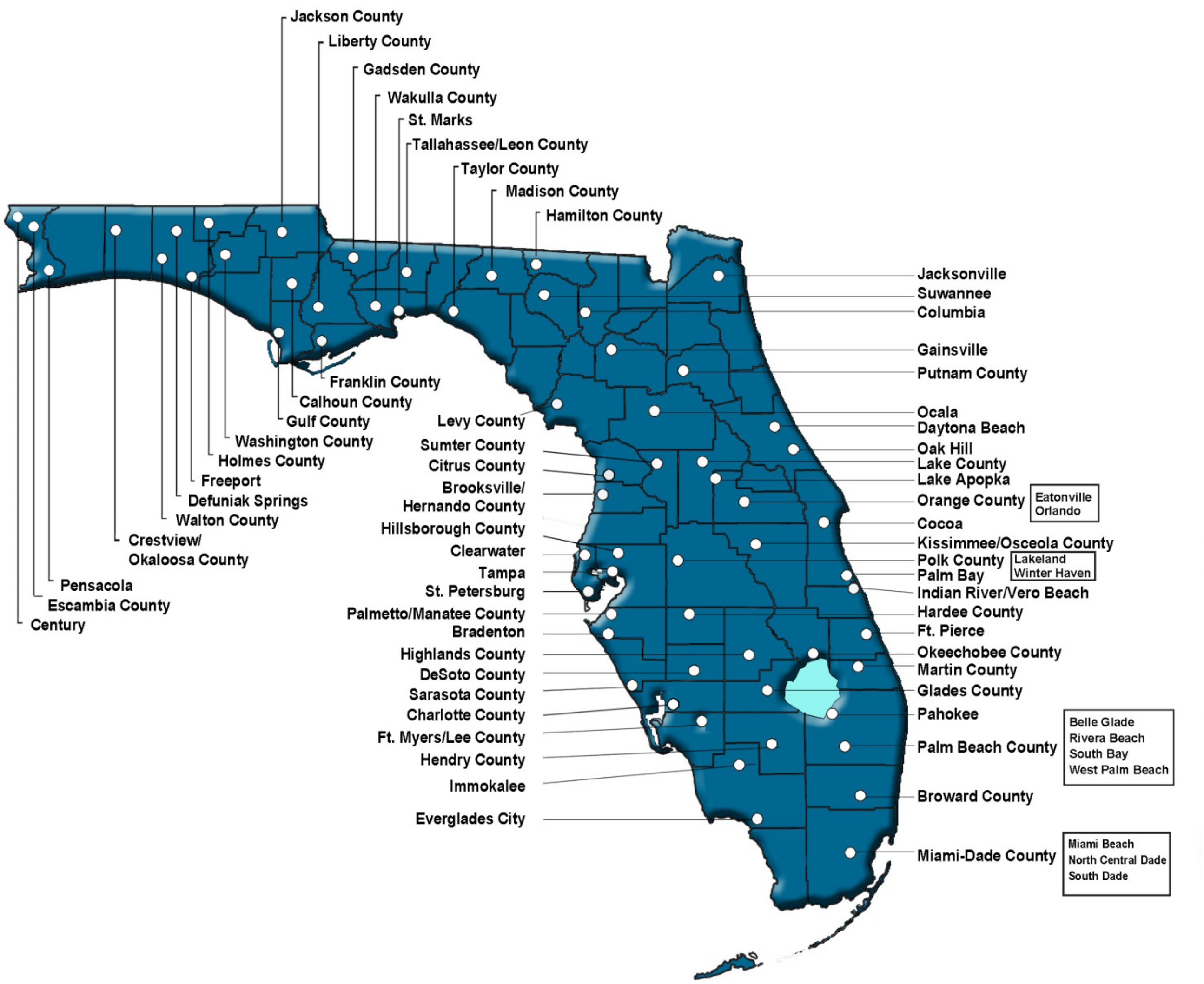
Source: *The Florida Statutes.*

[61] Sections 290.001-290.016, *F.S.*, authorize the creation of enterprise zones in Florida and specify goals and criteria for the program. Chapter 2005-287, *Laws of Florida*, re-designated existing enterprise zones and extended the program until December 31, 2015.

[62] Local incentives include occupational license fee reduction; municipal utility tax abatement; façade renovation and/or commercial revitalization; loans, grants, and miscellaneous; reduction of local government regulations; impact fee waiver and/or discount; local economic development property tax exemption; additional local government services; and local funds for capital projects.

Counties and municipalities may nominate an area to be designated as an enterprise zone that has high poverty (greater than 20%), high unemployment, and general distress, and meets certain geographic specifications (zones may not exceed 20 square miles).[63] Rural enterprise zones are located in counties with populations that generally do not exceed 100,000.[64] Of the 65 enterprise zones within the state, 29 are rural and 36 are urban. (See Exhibit 8-2.)

Exhibit 8-2
Florida Has 65 Enterprise Zones



Source: The Department of Economic Opportunity.

[63] Sections 290.0058 and 290.0055, *F.S.*

[64] Zones may be designated rural if the nominating county has a population of 75,000 or less; a county has a population of 100,000 or less and is contiguous to a county with a population of 75,000 or less; a municipality is located in a county with a population of 75,000 or less; or a municipality is located in a county with a population of 100,000 or less and is contiguous to a county with a population of 75,000 or less.

Local governments are responsible for zone administration and monitoring activities, creating enterprise zone development agencies and employing zone coordinators. Zone coordinators serve as local contacts and assist businesses applying for state tax credits and refunds, certify incentive applications to the Department of Revenue, educate the public about the program, and submit data on zone activities to the DEO for inclusion in the enterprise zone annual report. The Department of Economic Opportunity oversees the program at the state level and approves zone designation applications and changes in zone boundaries. The department also provides technical support to local zone coordinators and submits annual program reports to the Governor and Legislature.

History. The Legislature has enacted several changes to the Enterprise Zone Program since its inception. For example, the 1994 Legislature passed the Florida Enterprise Zone Act of 1994, which repealed the existing enterprise zones on December 31, 1994, created parameters for designation of new zones, and established a program expiration date of June 30, 2005.[65] In addition, the jobs tax credit criteria were revised to require both businesses and employees to reside within an enterprise zone. In 1995, 19 new rural and urban enterprise zones were designated.

The 2005 Legislature extended the program for 10 years and gave existing enterprise zones an opportunity to have their zones be re-designated.[66] By January 1, 2006, the former Office of Tourism, Trade and Economic Development (OTTED) had approved 53 re-designation application packages.[67] Subsequently, the Legislature authorized and OTTED approved the designation of enterprise zones in nine additional jurisdictions.

In 2010, the Legislature amended the definition of real property by excluding condominiums from the building materials sales tax refund incentive.[68] In October 2011, management of the Enterprise Zone Program was transferred from OTTED to DEO's Division of Community Development, Bureau of Economic Development. DEO approved three additional enterprise zone application packages in 2012, bringing the total number of zones to 65.

Incentives Received

Local zone coordinators must certify all applications for enterprise zone credits and tax refunds.[69] Applicants must attach required documents to required Department of Revenue forms, including receipts if the business is applying for sales tax refunds and employee information if applying for jobs tax credits. The Department of Revenue audits these applications to ensure they meet several criteria, including evidence that applicants owned the property when the improvements were made; employees are full-time and live in the zone; applicants have paid pertinent taxes; and application deadlines were met.[70] If DOR denies an application, the applicant is notified and may amend their application, file an informal protest with the department, or file a written, formal protest with the Division of Administrative Hearings or a circuit court.

[65] Chapter 94-136, *Laws of Florida*.

[66] Chapter 2005-287, *Laws of Florida*.

[67] OTTED was a predecessor of the Department of Economic Opportunity. When DEO was created in 2011, OTTED's functions were transferred to the department.

[68] Chapter 2010-147, *Laws of Florida*.

[69] Businesses applying for community contribution tax credits must seek approval from the Department of Economic Opportunity.

[70] A 2011 OPPAGA report (*Few Businesses Take Advantage of Enterprise Zone Benefits; the Legislature Could Consider Several Options to Modify the Program*, OPPAGA Report No. 11-01, January 2011) described several deficiencies in the incentive application process including no written procedures for review and approval of tax credits; differing procedures for refunds, credits, sales and use taxes, and corporate income taxes; inability to submit tax credit applications online; and an inconsistent approval process.

In Fiscal Years 2009-10 through 2011-12, businesses received $110.9 million in Enterprise Zone Program incentives. During the period, there was a significant decrease (74.5%) in incentives, primarily due to the 2010 Legislature's exclusion of condominiums from the definition of real property, which in turn made condominiums ineligible for sales tax refunds for building materials.[71] The largest decrease in incentives occurred between Fiscal Years 2009-10 and 2011-12, with a 56.3% decline. (See Exhibit 8-3.)

Exhibit 8-3
Enterprise Zone Program Incentives Decreased 74.5% Between Fiscal Years 2009-10 and 2011-12

	State Incentive Amounts				
Incentives	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Total	Percentage Change FY 2009-10 to 2011-12
Sales Tax Refund for Building Materials Used	$53,030,595	$13,590,376	$2,462,136	$69,083,107	-95.4%
Jobs Tax Credit (Sales and Use Tax)	4,568,257	5,979,438	7,625,993	18,173,688	66.9%
Jobs Tax Credit (Corporate Income Tax)	3,892,991	5,547,786	3,484,013	12,924,790	-10.5%
Sales Tax Refund for Business Machinery and Equipment	1,035,561	679,440	1,228,480	2,943,481	18.6%
Property Tax Credit (Corporate Income Tax)	1,896,648	1,906,552	992,280	4,795,480	-47.7%
Sales Tax Exemption on Electricity Use	1,138,054	972,185	900,476	3,010,715	-20.9%
Total	**$65,562,107**	**$28,675,777**	**$16,693,378**	**$110,931,261**	**-74.5%**

Source: OPPAGA analysis of Department of Revenue data.

[71] Chapter 2010-147, *Laws of Florida*.

Program Performance

To more closely examine Enterprise Zone Program performance, OPPAGA sought to gauge changes in economic outcomes and participation by businesses in five selected enterprise zones.[72] We considered a range of factors when selecting our sample, including incentive amount, population, and urban/rural geography. The five zones are Gulf County, Jacksonville, Miami-Dade County, Okeechobee County, and Tallahassee/Leon County.

In Fiscal Years 2009-10 through 2011-12, the five zones received sales and use tax credits and refunds totaling $73.8 million; this represents 66.5% of the incentives received statewide during the period. Miami-Dade County received the most incentives, $68.2 million, while Gulf County received the least, $477,633. The most frequently used incentive among the five counties was the sales tax refund for building materials, which totaled $61.6 million. (See Exhibit 8-4.)

Exhibit 8-4
Businesses in Five Enterprise Zones Received $73.8 Million in Incentives in Fiscal Years 2009-10 Through 2011-12[1]

	Jobs Tax Credits		Refunds for Building Materials Used		Refunds for Business Machinery Used		Total
Enterprise Zone	Businesses	Incentive	Businesses/ Individuals	Incentive	Businesses	Incentive	Incentive
Miami-Dade County	102	$7,378,945	64	$59,490,547	81	$1,302,308	**$68,171,800**
Jacksonville	20	775,369	33	478,085	28	650,941	**1,904,395**
Okeechobee County	19	1,584,204	8	34,083	6	34,241	**1,652,528**
Tallahassee/Leon County	5	17,447	52	1,518,649	11	56,984	**1,593,080**
Gulf County	17	421,779	19	51,426	5	4,428	**477,633**
Total	**163**	**$10,177,744**	**176**	**$61,572,790**	**131**	**$2,048,902**	**$73,799,436**

[1] The figures presented do not include credits taken against Florida corporate income taxes because the Department of Revenue does not track these incentives for individual enterprise zones.

Source: OPPAGA analysis of Department of Revenue data.

The only Enterprise Zone Program incentive that is directly linked to employment is the Job Tax Credit. The incentive is available to businesses located in a zone that pay Florida sales and use or corporate income taxes; businesses are granted tax credits for new employees who have been employed for at least three months and are zone residents or residents of a rural county in rural enterprise zones. In Fiscal Years 2009-10 through 2011-12, 163 businesses in the five selected zones received job tax credits totaling $10.2 million. These businesses hired 2,517 new employees. Miami-Dade County claimed the most credits, totaling $7.4 million for 1,837 jobs. (See Exhibit 8-5.)

[72] We reviewed the same five zones in 2011. See *Few Businesses Take Advantage of Enterprise Zone Benefits; the Legislature Could Consider Several Options to Modify the Program*, OPPAGA Report No. 11-01, January 2011.

Exhibit 8-5
Businesses in Five Enterprise Zones Received $10.2 Million in Job Tax Credits for 2,517 Employees in Fiscal Years 2009-10 Through 2011-12

Enterprise Zone	Businesses	Credits	Employees[1]
Miami-Dade County	102	$7,378,945	1,837
Okeechobee County	19	1,584,204	242
Jacksonville	20	775,369	302
Gulf County	17	421,779	123
Tallahassee/Leon County	5	17,447	13
Total	**163**	**$10,177,744**	**2,517**

[1] This counts all new employees who were eligible for the credit for at least one month between Fiscal Years 2009-10 and 2011-12. Employees are eligible to be claimed for the credit for the first two years after they are hired. If employment is terminated before eligibility expires, the employee cannot be claimed for the remainder of the two years. The Department of Revenue determines when eligibility expires, but does not receive data indicating whether employment was terminated before expiration. Thus, this count may include some newly hired individuals whose employment was terminated prior to Fiscal Year 2009-10 and who were not claimed for the credit between Fiscal Years 2009-10 and 2001-12.

Source: OPPAGA analysis of Department of Revenue data.

From 2005 through 2012, business, employment, and wage growth varied widely among the five zones. The number of businesses and employment declined for all zones, but the size of the decrease varied by county. For example, the number of businesses in Miami-Dade County decreased by 1.1%, while they decreased by 26.6% in Gulf County. Similarly, decreases in employment ranged from a 9.4% decline in Okeechobee County to a 35.7% drop in Gulf County. However, wages increased in all zones, with growth ranging from 3.6% in Gulf County to 18.8% in Miami-Dade County. (See Exhibit 8-6.)

Exhibit 8-6
Economic Outcomes Varied in Five Enterprise Zones in Calendar Years 2005 Through 2012

Enterprise Zone	Business Growth[1]	Employment Growth[2]	Wage Growth[3]
Gulf County	-26.6%	-35.7%	3.6%
Jacksonville	-15.5%	-19.0%	13.3%
Miami-Dade County	-1.1%	-12.7%	18.8%
Okeechobee County	-11.5%	-9.4%	17.9%
Tallahassee/Leon County	-13.4%	-13.2%	13.2%
Statewide	**8.2%**	**-5.2%**	**17.4%**

[1] Changes in number of businesses.

[2] Changes in number of employees.

[3] Changes in average wages.

Source: OPPAGA analysis of Department of Economic Opportunity data.

Other Performance Indicators

As previously noted, the purpose of Florida's Enterprise Zone Program is to establish a process that identifies severely distressed areas and to provide state and local economic incentives to both businesses and homeowners, with the goal of inducing private investment and enabling revitalization. As part of our analysis of the degree to which such improvements have occurred, we reviewed U.S. Census data from 2000 and 2010 for the five selected enterprise zones. We compared changes in median home values, median household income, unemployment rates, and poverty rates in the five selected enterprise zones to similar non-enterprise zone census tracts.

Our analysis found low to mixed results, with enterprise zones meeting some legislative goals but falling short for others. In one of our analyses, two out of five enterprise zones outperformed similar non-zone comparison areas. In our other three analyses, only one of five enterprise zones outperformed similar comparison areas. These results indicate that while there were some successes, in general, the Enterprise Zone Program has not met legislative goals.

One measure of enterprise zone effectiveness at economically revitalizing disadvantaged areas is increased residential property values. In 2000, the five zones we examined all had high percentages of residential properties valued at under $100,000, the lowest census category of property values. The lowest percentage among the five zones was Miami-Dade, where 62% of the personal residences were valued at $100,000 or less; the highest percentage was Jacksonville, where 92% of the personal residences had property values under $100,000. By 2010, all five zones saw a significant decrease in the percentage of residential property valued at less than $100,000, a sign that property values increased in the zones even for the lowest valued residential properties. However, statewide the percentage of residential properties valued at under $100,000 also decreased from 55% in 2000 to 22% in 2010, so it is possible that the zones simply benefitted from the 10-year statewide rise in property values. (See Exhibit 8-7.)

In order to evaluate the growth in enterprise zone property values against a comparison group, for each zone we selected a group of census tracts from the 2000 census that had the same rural/urban status as the enterprise zones and that had the same percentage of homes valued at less than $100,000 in 2000. This allowed us to determine, for each zone, if the change in personal residences valued at under $100,000 or less was different than the change for a comparison group. In 2010, two of the five enterprise zones (Miami-Dade County and Okeechobee County) had smaller percentages than their comparison groups of personal residences valued at $100,000 or less. This shows that there was not an across-the-board increase in property values in enterprise zones that was greater than the increases that occurred in the comparison groups. We did not find strong evidence that residential property values increased more in enterprise zones than in similar non-enterprise zone areas.

Exhibit 8-7
Home Values in Enterprise Zones and Non-Enterprise Zones Have Risen Since 2000

	2000 Percentage of All Homes Valued at Less Than $100,000[1]	2010 Enterprise Zone Percentage of All Homes Valued at Less Than $100,000	2010 Enterprise Zone Comparison Group Percentage of All Homes Valued at Less Than $100,000	Difference Between Enterprise Zone and Comparison Group
Gulf County	73%	37%	37%	0%
Jacksonville	92%	60%	44%	16%
Miami-Dade County	62%	15%	22%	-7%
Okeechobee County	79%	36%	38%	-2%
Tallahassee/Leon County	84%	40%	31%	9%

[1] Enterprise zones and comparison group started at the same percentage.

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

Another measure of enterprise zone economic impact is median household income, which is a measure of a household's ability to acquire the goods and services that satisfy their needs. Our comparison of 2000 and 2010 U.S. Census data for the five selected zones and similar non-enterprise zone areas shows that in all selected enterprise zones, median household incomes have increased. However, only one enterprise zone, Miami-Dade County, showed an increase that exceeded that of its comparison non-enterprise zone area. (See Exhibit 8-8.)

Exhibit 8-8
Median Household Incomes Have Increased in All Five Enterprise Zones Since 2000

	Percentage Change from 2000 to 2010	
	Enterprise Zone	Non-Enterprise Zone
Gulf County	32%	38%
Jacksonville	29%	32%
Miami-Dade County	43%	23%
Okeechobee County	31%	34%
Tallahassee/Leon County	21%	31%

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

Unemployment also is often used as a measure of the health of the economy. Consistent with statewide unemployment trends, for all but one of the five enterprise zones in our review, unemployment rates were higher in 2010 than in 2000; Miami-Dade County's unemployment rate remained at 12%. When comparing enterprise zones to non-enterprise zone areas, Gulf County was the only zone that had a lower unemployment rate than its comparison non-zone area (10% compared to 13%). (See Exhibit 8-9.)

Exhibit 8-9
Consistent with State and National Trends, Unemployment Rates Increased in Most of the Selected Enterprise Zones in 2000 Through 2010

	2000 Unemployment Rates for Enterprise Zones and Non-Enterprise Zones[1]	2010 Enterprise Zone Unemployment Rates	2010 Non-Enterprise Zone Unemployment Rates
Gulf County	6%	10%	13%
Jacksonville	10%	18%	13%
Miami-Dade County	12%	12%	12%
Okeechobee County	5%	12%	12%
Tallahassee-Leon County	15%	15%	11%

[1] Both areas started at same rate.

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

Finally, the U.S. Census Bureau uses a set of income thresholds that vary by family size and composition to define poverty. If a family's total income is less than the family's threshold, the family is considered in poverty. Over the 10-year period of our review, poverty rates increased for three of the five selected enterprise zones. In all but one of the five zones, the poverty rate exceeded that of similar non-enterprise zone areas; Miami-Dade County's 2010 rate (26%), while increasing over the 10-year period, was lower than the comparison area (29%). (See Exhibit 8-10.)

Exhibit 8-10
In Fiscal Years 2000 Through 2010, Poverty Rates within Most of the Five Selected Enterprise Zones Increased

	2000 Poverty Rates for Enterprise Zones and Non-Enterprise Zones[1]	2010 Enterprise Zone Poverty Rates	2010 Non-Enterprise Zone Poverty Rates
Gulf County	17%	17%	16%
Jacksonville	30%	33%	29%
Miami-Dade County	27%	26%	29%
Okeechobee County	16%	24%	17%
Tallahassee-Leon County	37%	43%	31%

[1] Both areas started at same rate.

Source: OPPAGA analysis of 2000 and 2010 U.S. Census data.

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December 20, 2013

Mr. R. Philip Twogood
The Florida Legislature's Office of Program
Policy Analysis and Government Accountability
111 West Madison Street, Suite 312
Tallahassee, Florida 32399-1475

Dear Mr. Twogood:

Thank you for the opportunity to read and respond to the Office of Program Policy Analysis and Government Accountability's report regarding Florida's economic development incentive toolkit. We appreciate the detailed overview and analysis of each incentive program.

Recruiting competitive projects to create jobs for Floridians and capital investment in our communities is critical to bolstering our economy. As you know, our economic development efforts must be done with strictest level of fiduciary responsibility and demonstrate a notable return on investment to the taxpayers. It is because of our commitment to the taxpayers that Enterprise Florida, Inc. (EFI), along with its partner at the Department of Economic Opportunity (DEO), conducts a thorough evaluation of every project for the use and benefit of incentives.

As the survey results noted, Florida is competing not only with other states but countries and incentives become very important, when site characteristics are equal or when Florida cannot match the resources available in other states. This reaffirms my belief that incentives cannot make a bad deal good, but can make a good deal better. Building on that belief, EFI always considers the scope of the proposed project along with an understanding of the company's plans, goals and the competitive nature of the project help to shape Florida's incentive package.

The individual review of each of Florida's legislatively outlined economic development incentive programs demonstrates the success of the state's most commonly used program – the Qualified Targeted Industry Tax Refund Program. More than 75 percent of awarded incentives fall within this program. By providing a refund to taxes paid into the state by a company, companies in return create high-paying, high skilled jobs. The state's "cost" for this program is approximately $1,500 per job created, a clear win for the 37,000 new jobs created under the program – and more jobs than the companies were contracted to create. It is important to note that the many of the projects in the QTI program are still active and on target to meet contractual goals.

Governor Rick Scott, Chairman • Brett Couch, Vice Chairman • Gray Swoope, President & CEO

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What cannot be overstated is that, as a result of these projects, Florida's communities are not only benefiting from increased new jobs and capital investment, but also strong state and local revenue streams for schools, parks and community amenities, as well as numerous indirect jobs.

EFI remains steadfast in its commitment to Florida's taxpayers. We look forward to continuing to work you and our partners at DEO and members of the Legislature to strengthen Florida's incentive programs and continue creating jobs for Florida's families.

Sincerely,

Gray Swoope
Secretary of Commerce
President & CEO, Enterprise Florida Inc.

cc: Ms. Melinda Miguel, Chief Inspector General, Executive Office of the Governor

Rick Scott
GOVERNOR

FLORIDA DEPARTMENT of ECONOMIC OPPORTUNITY

Jesse Panuccio
EXECUTIVE DIRECTOR

December 31, 2013

Mr. R. Philip Twogood
The Florida Legislature's Office of Program
Policy Analysis and Government Accountability
111 West Madison Street, Suite 312
Tallahassee, Florida 32399-1475

Dear Mr. Twogood:

Pursuant to section 11.51(2), Florida Statutes, this letter represents Florida Department of Economic Opportunity's (DEO) response to the report titled: *Florida Economic Development Program Evaluations – Year 1*. We thank you and your staff for the review of the state's key economic development incentive programs and appreciate the detailed analysis of each program. DEO seeks to continually improve the efficiency and effectiveness of its functions and welcomes the opportunity to assess observations and recommendations for consistent and enhanced compliance implementation.

The review included projects that had received an incentive payment or claimed a tax credit during the fiscal years 2009-10 through 2011-12, which primarily corresponds to calendar year performance periods 2008-2010. This time period spans two gubernatorial administrations with differing policies, leadership, and priorities. The review is a look back at activities that occurred through several transitions in the administration of the programs including: transition from the Office of Tourism, Trade and Economic Development (OTTED) to DEO; transition from a third-party contract compliance monitoring firm to an in-house compliance unit; improvement in the alignment of the state's economic development public-private partners; and enhancements in policies and procedures for conducting due diligence and compliance functions. These transitions began in 2011 and largely occurred after the period under review – over 90 percent of the incentives were approved prior to 2011.

Recommended Improvements Have Largely Been Made

It is important to note that the report covers a time period in which incentives were evaluated, approved, and contracted very differently than today. Today, we have made significant changes to the incentives application and approval process and the due diligence procedures discussed in the report under the heading "Incentive Program Administration" are largely new. With significant improvements made to our incentive applications, due-diligence process, deal structures and contracts, our procedures and documents provide an enhanced level of protection for the taxpayers' investment.

Before making an investment through incentives, DEO performs due diligence on each company, considers the scope of the proposed project, evaluates what incentives are suitable, and negotiates the terms of an incentive agreement. The process begins with a thorough investigation of the company. This "due diligence" process serves to determine whether incentives are appropriate for the company and the project, identify any problems, and assist with structuring the deal.

DEO's new due diligence process has two levels—we conduct Level One due diligence for tax refund and credit incentive programs (*e.g.*, the Qualified Target Industry Tax Refund Program and the Capital

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Investment Tax Credit Incentive Program) and we conduct both Level One and Level Two due diligence for discretionary cash incentive programs (*e.g.*, the Quick Acton Closing Fund Program and the High-Impact Performance Incentive Program). Tax refund and credit incentives do not involve credit risk because payments are made only after demonstrated performance. Accordingly, we focus our due diligence on statutory compliance, reputation risk (*e.g.*, known felony criminal histories of principal executives, civil fines and penalties, significant litigation, etc.) and whether there is a substantial probability of non-performance (*e.g.*, imminent insolvency). We consult a variety of resources, including conducting litigation searches on Lexis Nexis and Justia, searching federal and state databases, and reviewing regulatory filings and filings with the Securities and Exchange Commission (for public companies). For incentives in which a company receives all payments prior to fulfilling all of its performance obligations, the State may be required to exercise contractual remedies, including claw backs. Because the effectiveness of a claw back remedy depends on the financial ability of a company to return funds to the State, in addition to the Level One due diligence, our financial analysts review the company's financial statements and review credit rating reports (*i.e.*, Standard & Poor's, Moody's and Fitch) or, when a company does not have rated debt, we conduct an independent analysis of its credit.

Our improved processes and procedures allow us to fulfill our fiduciary duty to protect the taxpayers' investment, while helping to foster an environment that encourages private-sector job creation. In the next year, we will continue to build on our improvements. Additionally, we have had the opportunity to implement an enhanced data system over the past year to assist in electronic filing and retrieval of project files. We look forward to maximizing our ability to document and maintain project files.

<u>DEO Requires Appropriate Supporting Documentation for All Incentive Projects</u>

With respect to your findings related to improving the consistency of documentation, certain programs and agreements require different types of documentation. Accordingly, while we agree that the type of documents evidencing performance requirements varies, such variation is necessary. The report points to files containing business generated lists of employees and wages or unemployment compensation forms. Such differences are necessary to adequately determine performance for different business structures and statutory requirements. A change in the QTI statute in 2009 required the state to measure the average wage of only new employees hired after the incentive was approved. The RT-6 form (which is specifically referenced) used for reemployments purposes does not distinguish the "new" employees from those who were previously hired; therefore, DEO requires businesses to submit a complete listing of employees, including hire and termination dates, and actual wages paid by pay period.

While the statute is silent on the extent of documentation and testing required to support the validity of an incentive performance claim, DEO obtains information directly from businesses and other state departments to document performance for every claim and every incentive payment. For job and wage claims, we review:

- Businesses' jobs and wages claim spreadsheets.
- Department of Revenue's (DOR) SunTax system to confirm awardee business' direct and leased/temporary employment and annual average wages paid.
- W-2 and W-1099 forms, as necessary, to determine the nature of employment relationships and to confirm annual average wages.

For capital investment, we review invoices and cancelled checks, ACH slips, bank statements, etc., to confirm capital investment made, as applicable. For taxes paid, we review:

- Corporate Income Tax data from DOR for applicable awardee businesses.
- Invoices and canceled checks, ACH slips, bank statements, etc., to confirm taxes paid, as applicable.
- County tax collector websites to confirm proof and amount of payment of real and tangible personal property taxes.

DEO Confirms Brownfield Locations

DEO confirms the project location prior to making any brownfield tax refund payments. When asked to provide evidence of brownfield locations, DEO staff sent OPPAGA the brownfield location maps from DEP's website for each of the requested projects. These are the projects for which OPPAGA also confirmed the eligible project locations for each project.

DEO Will Monitor and Evaluate New Third-Party Contractor

We appreciate the recommendation to establish monitoring and evaluation procedures for overseeing the work of the new third-party vendor. As is recognized in the report, OTTED/DEO did not conduct a formal evaluation of its former contractor's performance. With the most recent Comprehensive Performance Audit, 14-RFP-002-LJ (REISSUE), DEO established more thorough deliverables, measures, and financial consequences to develop DEO's ability to track and oversee the contractor's performance. DEO will hold the contractor accountable for their performance, while maintaining their independence. These deliverables, measures, and financial consequences include weekly and monthly meetings to track the contractor's activity and progress and to discuss any challenges throughout the course of the contract. If for any reason the contractor fails to perform any of the deliverables or meet any of the measures, financial consequences will be applied by DEO. Additionally, of note, DEO will work in coordination with the new contractor to review and implement enhanced policies and procedures for contract monitoring and compliance review.

Concerns Regarding OPPAGA'S Survey Instrument

While gathering data by surveying recipients of incentives may be useful, the survey that OPPAGA conducted for purposes of the report has potentially material and important defects, including question error, coverage error, and non-response error. As a result, the survey may not have produced reliable results.

For example, we have concerns with certain survey questions. Because the various incentive programs that OPPAGA evaluated are intended to induce different outcomes, it is imperative that questions designed to measure the efficacy of each of the programs are tailored to the objectives established by the Legislature in the applicable statutes. In particular, while the Quick Action Closing Fund Program and the High-Impact Performance Incentive Program are designed to induce businesses to choose Florida for a project rather than competitor states, the Brownfield Redevelopment Bonus Refund Program and the Enterprise Zone Program are designed to induce businesses to locate a project on a brownfield site or in an enterprise zone, respectively, rather than another location that may or may not be in Florida. Moreover, while the Qualified Target Industry Tax Refund Program is in practice held to a competitive project standard, it is by statute a job-creation incentive program designed to induce both Florida and out-of-state businesses. However, OPPAGA's survey treats all of the incentive programs as if the statutorily-defined objectives are identical, asking "If the state economic development incentive(s) had not been awarded to your company, what would have been the effect on your company's plans to conduct the project in Florida?" Respondents could choose from one of the following responses: (i) proceed as planned in Florida, (ii) proceed on a smaller scale in Florida, (iii) proceed at an out of state location or (iv) canceled project. While this question is clearly relevant for recipients of incentives from the Quick Action Closing Fund Program and the High-Impact Performance Incentive Program, the question is not adequately tailored to the objectives of 220 (81%) of the 271 incentives awarded during the evaluation period. It is important to note that some of the projects received multiple incentives; therefore, the number of incentives awarded is greater than the number of projects.

In addition, the survey respondents may not have had the necessary knowledge to answer the survey questions. Few decisions are more sensitive to businesses than where the business will relocate or expand. For example, if employees of a New York-based business that is considering moving its operations to Florida know that their jobs are at risk even before the company has made a decision, it could result in premature defections of key personnel which could put the business at risk. In any business with more than a handful of employees, the pool of people who are privy to a company's expansion or relocation decision-making process is limited to key executives. Once a company receives incentives, compliance is generally tasked to low-level functionaries. In addition, because 248 (92%) of the incentives awarded during the evaluation period were approved prior to 2011—some as early as 2000, in many cases, the persons with knowledge of a company's decision making process may no longer be with the company and/or may not accurately recollect the company's decision making process in connection with an historical decision. Although OPPAGA stated in its survey that the "company's survey respondent should be knowledgeable about incentives your company applied for or received payment for as well as the importance of the incentives to company decision making," the survey respondents (which in many cases were lower-level employees) did not necessarily know what portions of the decision-making process to which they were not privy and could not adequately assess their ability to respond to the survey. Accordingly, the survey should at least have been limited to key executives at the time of the relocation or expansion decision who by virtue of their position would have sufficient knowledge to answer the applicable questions.

Non-response is a problem for survey quality because it almost always introduces systematic bias into the data. This results in poorer data quality and can significantly bias any estimates derived from the data. OPPAGA surveyed 144 of the businesses that received incentives during the evaluation period and just 54 (38%) of these businesses provided complete responses. While nearly every survey suffers from some rate of non-response, the degree of non-response to OPPAGA's may make the results potentially unreliable.

Only Two High Impact Performance Incentives were Reviewed

While there were many businesses that participated in the economic-development programs for this period, achieved performance, and received incentive payments, there were only two High Impact Performance Incentives (HIPI) projects represented in the review pool. This means that the program data from which to draw conclusions is limited for the HIPI program.

Again, we thank you and your staff for the review and will take under advisement the actions recommended to promote more efficiency, transparency, and accountability in the state's economic-development incentive programs.

Sincerely,

Jesse Panuccio

JP/cp