THE FLORIDA LEGISLATURE
OPPAGA
OFFICE OF PROGRAM POLICY ANALYSIS & GOVERNMENT ACCOUNTABILITY

January 2017 **Report No. 17-02**

Florida Economic Development Program Evaluations - Year 4

at a glance

Incentives are one of many factors in business decisions to expand or relocate, but most are awarded to existing Florida businesses that have over 1,000 employees. Projects that received incentive payments and claimed tax credits in Fiscal Years 2012-13 through 2014-15 have received $597.4 million in cumulative payments and tax credits; these projects received $156.2 million within the review period. All of these projects have job creation requirements and many have capital investment goals. However, performance on these measures varies by incentive program. During the review period, 134 incentives were terminated due to lack of performance.

The Enterprise Zone Program underperformed on economic and social indicators and will be completely phased out by 2018. Most Innovation Incentive recipients have been unable to achieve job goals and several left the state prior to contract completion. New Markets Development Program projects are primarily located in two counties, with most capital invested in four industries; inadequate reporting requirements hamper assessment of program impact.

The Legislature may wish to consider phasing out the Innovation Incentive Program. If the Legislature funds additional New Markets tax credits, it could direct the Department of Economic Opportunity to use scoring criteria to allocate them. Moreover, the department should enhance oversight of the New Markets Program and improve the timeliness of the incentive claims and payment processes.

Scope

Section 288.0001, *Florida Statutes*, requires the Office of Program Policy Analysis and Government Accountability (OPPAGA) and the Office of Economic and Demographic Research (EDR) to provide a detailed analysis of state economic development programs according to a recurring schedule established in law.[1] OPPAGA must 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; EDR must evaluate and determine the economic benefits, as defined in s. 288.005(1), *Florida Statutes*, of each program over the same period.

Background

The eight economic incentive programs under review this year 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.)

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[1] For previous OPPAGA analyses, see *Florida Economic Development Program Evaluations – Year 1*, Report No. 14-01, January 2014; *Florida Economic Development Program Evaluations – Year 2*, Report No. 15-01, January 2015; and *Florida Economic Development Program Evaluations – Year 3*, Report No. 15-11, November 2015.

Businesses that receive incentives from these programs enter into multi-year contractual 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. (See Appendix A for a more detailed description of each program.)

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

Exhibit 1
The Eight Programs Under Review This Year 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.*
New Markets Development Program – Encourages capital investment in rural and urban low-income communities by allowing taxpayers to earn credits against specific taxes (e.g., insurance premium and corporate income taxes) through qualified investments in businesses that create and retain jobs.	Tax Credit	ss. 288.991-288.9922, *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 (QTI) 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.*
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.*
Enterprise Zone Program – Encourages the revitalization of economically distressed areas by providing credits against Florida's sales tax or corporate income tax to businesses located in an enterprise zone. Corporate income tax credits are available for businesses that construct or expand facilities within a zone. Sales tax refunds are available when businesses purchase equipment or building materials for use within a zone. The program sunset on December 31, 2015, but businesses in enterprise zones that entered into contracts between January 1, 2012 and July 31, 2015 can receive program credits from January 1, 2016 to December 31, 2018.	Tax credits and refunds	ss. 212.08(5)(g)-(h); 212.08(15); 212.096; 220.181; and 220.182, *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.*
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.*
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 quantifiable disadvantage after other available resources have been exhausted. Funds are paid based on specific project criteria outlined in a performance-based contract between the company and the state.	Grant	s. 288.1088, *F.S.*

[1] OPPAGA classified the eight 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*.

Exhibit 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] DEO certifies applicants as Qualified Target Industry businesses and decertifies those that fail to comply with incentive agreement terms.

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

Projects with incentive payments in Fiscal Years 2012-13 through 2014-15 have received $597.4 million in cumulative payments; the projects collected $156.2 million during the review period. To examine program costs and performance, OPPAGA reviewed 232 projects that received economic incentive payments (e.g., grant payments, tax refunds, and tax credits) from DEO during Fiscal Years 2012-13 through 2014-15.[2, 3] DEO classifies projects by status – active, complete, inactive, and terminated. Of the 232 projects, 142 (61.2%) were active, 45 (19.4%) were complete, and 45 (19.4%) were inactive.[4,5]

Several projects in the sample received incentives from multiple programs. Specifically, the 232 contracted projects received 295 incentives. Most of the projects (66.8%) received one incentive, 31% received two, and 2.2% received three.

The 232 projects that received state incentives during Fiscal Years 2012-13 through 2014-15 have received a total of $597.4 million; this amount comprises all incentives received, including those received outside of the three-year period. Most projects (177) received incentives from the Qualified Target Industry Tax Refund Program, while only 1 project received High Impact Performance Incentives. The Innovation Incentive Program accounted for the highest percentage of incentives received, at 48.9%. (See Exhibit 3.)

[2] This project count also includes 22 projects that had $34.4 million placed into an escrow account. A company will receive payment upon meeting performance goals.

[3] DEO does not enter into contracts for New Markets Development Program or Enterprise Zone Program projects.

[4] Active projects are in progress and in good standing with regard to meeting contract performance goals. Complete projects are those that met contract terms and received all eligible incentive payments. Inactive projects received one or more incentive payment after meeting a portion of contract commitments, but are ineligible for future payments. Terminated projects are those with executed contracts that did not receive any payments before becoming ineligible to continue program participation.

[5] The status of an individual incentive can vary from the status of the entire project. For example, a project with two incentives can have an active and inactive incentive. Projects receiving more than one incentive are considered active if at least one incentive remains in active status.

Exhibit 3
Since Project Commencement, Contracted Projects that Received Incentive Payments in Fiscal Years 2012-13 Through 2014-15 Have Collected $597.4 Million in State Funds; the Projects Received $156.2 Million During the Review Period

Program	Projects	Total Awarded	Amount Received Since Commencement	Amount Received During Review Period[1]
Innovation Incentive Program	4	$206,000,000	$200,151,744	$45,060,891
Quick Action Closing Fund Program	91[2]	156,975,440	87,640,896[3]	22,604,407
Capital Investment Tax Credit Program	9[4]	NA[5]	262,974,170[6]	67,834,583
Qualified Target Industry Tax Refund Program	177[7]	126,287,100	42,795,894	17,211,571
High Impact Performance Incentive Program	1	5,000,000	2,500,000	2,500,000
Brownfield Redevelopment Bonus Refund Program	13	5,435,000	1,385,888	945,405
Total[8]	**232**	**$499,697,540**	**$597,448,592**	**$156,156,857**

[1] The amount for refund programs reflects payments for performance in calendar years 2012 through 2014. For grants and tax credit programs, the amount reflects payments made in calendar years 2012 through 2014.

[2] This total reflects 22 active projects that have not received state funds, but $34.4 million in funds remain in an escrow account. The amount awarded includes funds in the escrow account.

[3] The amount received excludes $4.8 million repaid by companies.

[4] Companies that claimed credits against taxes paid for calendar years 2012 through 2014.

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

[6] Amount of credits claimed by companies against taxes paid for calendar years 2001 through 2015.

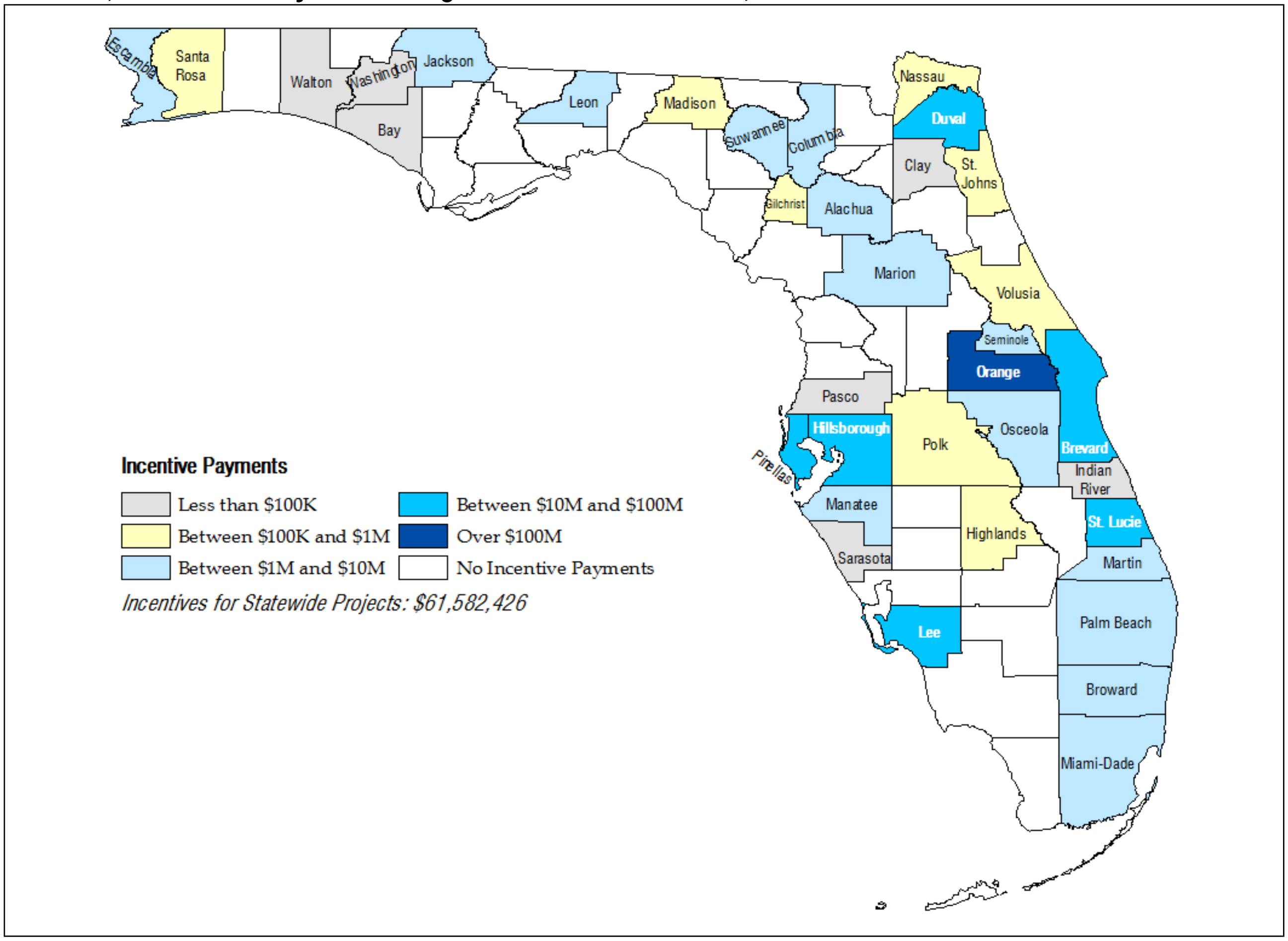
[7] Total includes 19 projects that received a brownfield redevelopment bonus with a tax refund from the Qualified Target Industry Tax Refund Program.

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

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

Incentives were distributed across 36 counties, with totals varying widely by county. During the review period, 7 counties received total incentives of less than $100,000, while 14 received between $1 million and $10 million. Only seven counties received total incentives exceeding $10 million. Those counties are Brevard, Duval, Hillsborough, Lee, Orange, Pinellas, and St. Lucie. (See Exhibit 4.)

Exhibit 4
Projects that Received Incentive Payments in Fiscal Years 2012-13 Through 2014-15 Are Located in 36 Counties; Cumulative Payments Range From Less Than $100,000 to Over $100 Million[1, 2]



[1] Payments are cumulative, from project inception, not just payments made in the three-year review period. One project could not be allocated to a single county; the incentive amounted to $61.6 million.
[2] Enterprise Zone and New Markets Development Program incentives are not included in the exhibit.
Source: OPPAGA analysis of Department of Economic Opportunity data.

Findings

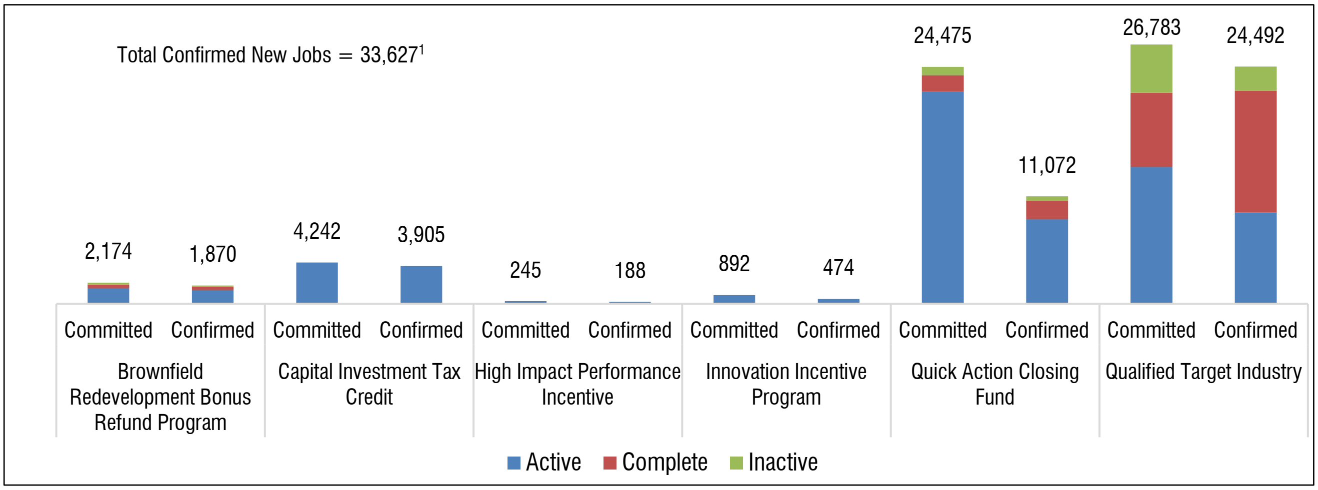
Overall, projects that received payments during the review period have created 33,627 new jobs and made $3.3 billion in capital investments; performance varies by program

The 232 active, complete, and inactive projects that received incentive payments in Fiscal Years 2012-13 through 2014-15 have created a cumulative 33,627 new jobs. The total number of confirmed jobs was less than the number of committed jobs for every incentive program. However, 61.2% of the projects are active and in good standing with regard to adhering to contract performance schedules.

The cumulative job amount is 76.5% of the total contracted new jobs requirement. Projects with an active status achieved 56.1% of job goals thus far, while complete projects achieved 163.6% and inactive projects achieved 78.6%.

In addition, at the program level, performance varied. For example, Capital Investment Tax Credit (CITC) and Qualified Target Industry (QTI) program recipients were the closest to meeting contract requirements; CITC recipients achieved 92.1% of job goals and QTI recipients achieved 91.4%. In contrast, projects with Quick Action Closing Fund incentives achieved only 45.2% of job goals. However, 91.2% of projects receiving this incentive are active. (See Exhibit 5.)

Exhibit 5
Since Project Inception, Projects That Received Incentive Payments in Fiscal Years 2012-13 Through 2014-15 Have Created 33,627 New Jobs[1]

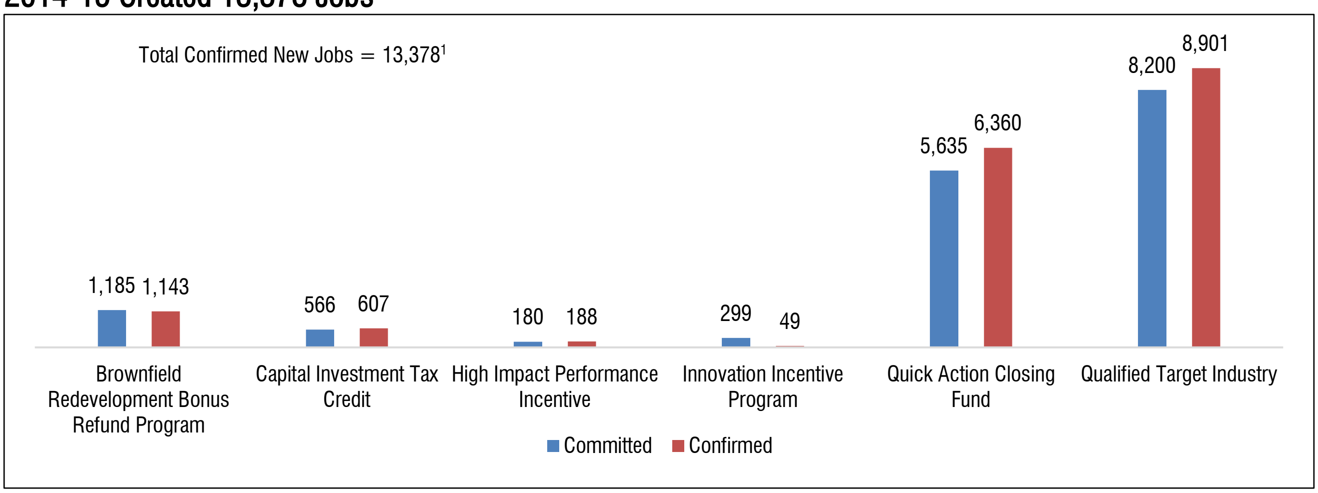


[1] Projects receiving funds for multiple incentive programs can count the same jobs across programs. This figure represents an unduplicated count of confirmed new jobs. Total includes projects that received a brownfield redevelopment bonus with a tax refund from the Qualified Target Industry Tax Refund Program.

Source: OPPAGA analysis of Department of Economic Opportunity data.

During the three-year review period, the projects that received incentive payments in Fiscal Years 2012-13 through 2014-15 created 13,378 jobs.[6] The total number of confirmed jobs exceeded the number of committed jobs for four incentive programs. The two programs that did not exceed job goals during the review period were the Brownfield Redevelopment Bonus Refund Program and the Innovation Incentive Program. (See Exhibit 6.)

Exhibit 6
During the Review Period, Projects That Received Incentive Payments in Fiscal Years 2012-13 Through 2014-15 Created 13,378 Jobs [1]



[1] Projects receiving funds for multiple incentive programs can count the same jobs across programs. This figure represents an unduplicated count of confirmed new jobs. Total includes projects that received a brownfield redevelopment bonus with a tax refund from the Qualified Target Industry Tax Refund Program.

Source: OPPAGA analysis of Department of Economic Opportunity data.

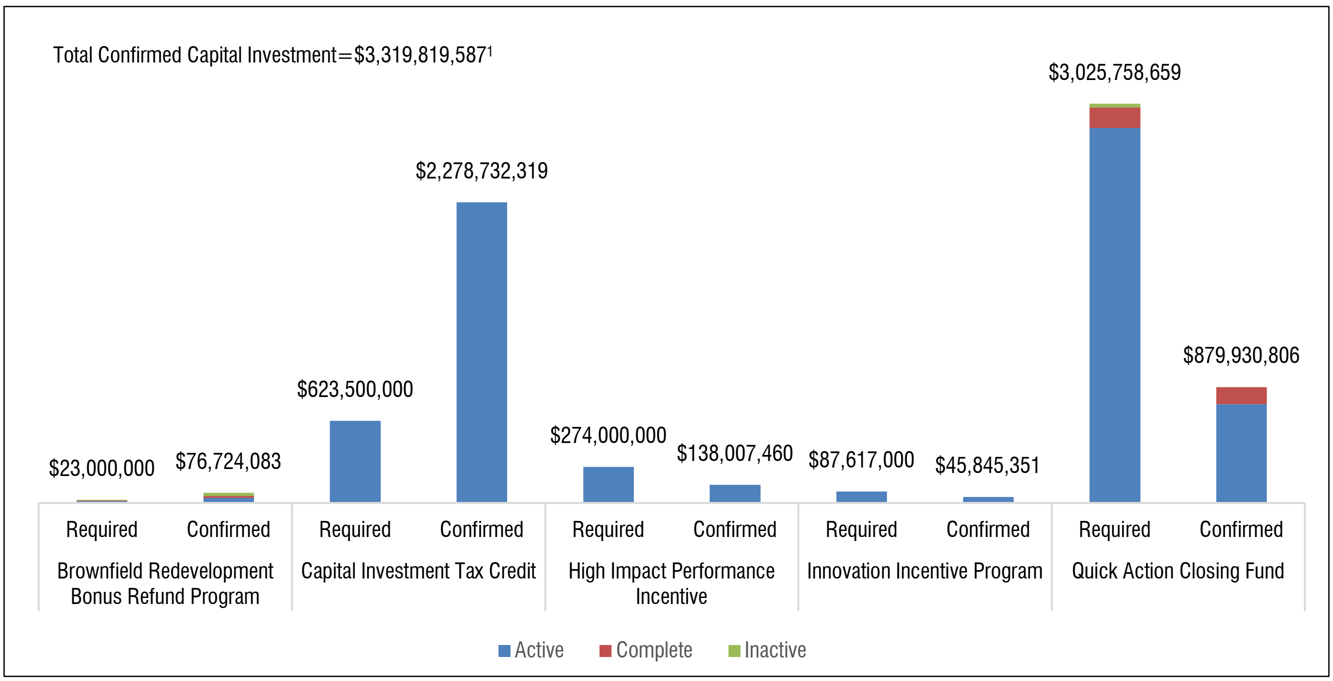
[6] Approximately 39% of these projects were in a job maintenance period during which they were required to keep previously created jobs in order to receive incentive payments.

The active, complete, and inactive projects that received incentive payments in Fiscal Years 2012-13 through 2014-15 have made a cumulative $3.3 billion in capital investments. The total amount of confirmed capital investment was less than the total amount of committed capital investment for every program except CITC and the Brownfield Redevelopment Bonus Refund. As mentioned previously, 61.2% of the projects are active and in good standing with regard to adhering to contract performance schedules.

The cumulative capital investment amount is 78.7% of the total contracted capital investment requirement. Projects with an active status achieved 78.5% of capital investment goals thus far, complete projects achieved 78.1%, and inactive projects achieved 90.6%.

At the program level, of the five incentives that have contractual capital investment goals, two—CITC and Brownfield Redevelopment Bonus Refund—exceeded requirements. CITC recipients were contracted to invest $623.5 million and confirmed expenditures were $2.3 billion. Similarly, Brownfield Redevelopment Bonus Refund recipients were contracted to invest $23.0 million and confirmed expenditures were $76.7 million. In contrast, Quick Action Closing Fund recipients were contracted to invest $3.0 billion and had only $879.9 million in confirmed expenditures. However, 91.2% of projects receiving this incentive are active. (See Exhibit 7.)

Exhibit 7
Since Project Inception, Projects That Received Incentive Payments in Fiscal Years 2012-13 Through 2014-15 Have Made $3.3 Billion in Capital Investments [1]

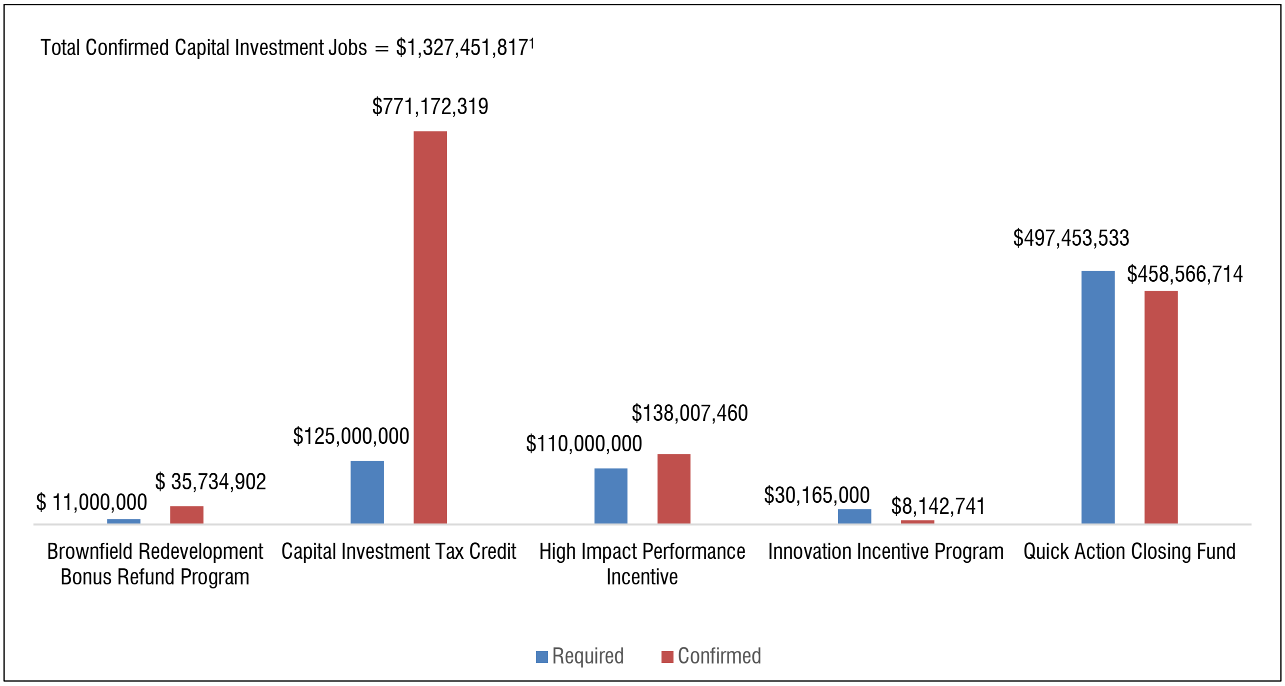


[1] Projects receiving incentives from multiple programs can count the same amount of capital investment across programs. This figure represents an unduplicated amount of confirmed capital investment.

Source: OPPAGA analysis of Department of Economic Opportunity data.

During the three-year review period, the projects that received incentive payments in Fiscal Years 2012-13 through 2014-15 made $1.3 billion in capital investments. The total amount of confirmed capital investments exceeded the amount of committed capital investments for three of the five incentive programs that have such a requirement. The two programs that did not exceed capital investment goals during the review period were the Innovation Incentive Program and Quick Action Closing Fund. (See Exhibit 8.)

Exhibit 8
During the Review Period, Projects That Received Incentive Payments in Fiscal Years 2012-13 Through 2014-15 Made $1.3 Billion in Capital Investments[1]



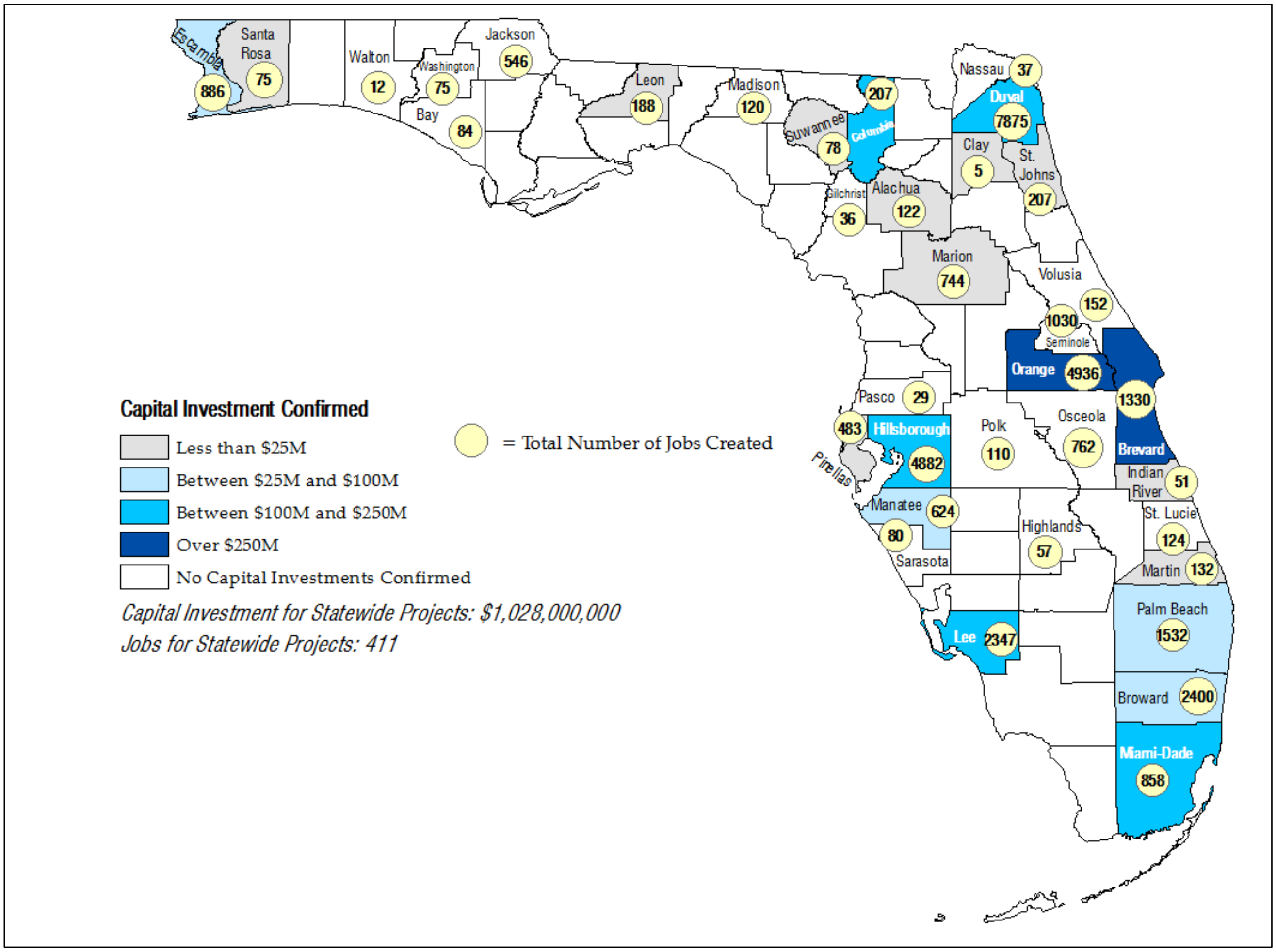
[1] Projects receiving incentives from multiple programs can count the same amount of capital investment across programs. This figure represents an unduplicated amount of confirmed capital investment.

Source: OPPAGA analysis of Department of Economic Opportunity data.

There are 36 counties with confirmed new jobs and 21 counties with confirmed capital investments, with performance varying widely by county.[7] For example, with regard to job creation, the number of confirmed new jobs ranged from 5 in Clay County to 7,875 in Duval County. Capital investment totals also differed greatly, with 10 of 21 counties having projects that made capital investments of less than $25 million. Brevard and Orange counties had projects that made capital investments exceeding $250 million. (See Exhibit 9.)

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

Exhibit 9
Cumulative Confirmed New Jobs and Capital Investments Varied Across Counties for Projects That Received Incentive Payments in Fiscal Years 2012-13 Through 2014-15[1]



[1] One project could not be allocated to a single county; confirmed capital investments amounted to $1 billion, with 411 new jobs.
Source: OPPAGA analysis of Department of Economic Opportunity data.

During the review period, DEO terminated 134 incentives that failed to meet performance goals; terminated incentives were scheduled to create 12,822 jobs and make $195 million in capital investments

From Fiscal Years 2012-13 through 2014-15, DEO terminated 134 incentives for 124 projects because incentive recipients failed to achieve contractual performance standards; these incentives were due to receive $60.7 million in payments. The incentives were committed to create 12,822 jobs and make $195 million in capital investments. The incentives were to receive payments from the following programs: Brownfield Redevelopment Bonus Refund, Qualified Target Industry Tax Refund, and Quick Action Closing Fund. (See Exhibit 10.)

Before termination, the incentives resulted in some job creation and capital investment. Specifically, DEO confirmed that the incentives created 213 jobs (1.7% of those committed by contract) and made $2.7 million in capital investments (1.4% of the amount required).

Exhibit 10
Terminated Incentives Were Scheduled to Receive Payments From Three Programs

Program	Number of Incentives
Qualified Target Industry Tax Refund[1]	113
Brownfield Redevelopment Bonus Refund[2]	13
Quick Action Closing Fund	8
Total	**134**

[1] Total includes 22 projects that received a brownfield redevelopment bonus with a qualified target industry tax refund.

[2] These incentives were standalone bonus refunds.

Source: OPPAGA analysis of Department of Economic Opportunity data.

Incentives are important, but not the only factor in businesses' decisions to expand or locate in Florida; most incentive recipients are existing in-state businesses

To better understand businesses' experiences with state economic incentive programs and the role incentives play in expansion and location decisions, OPPAGA surveyed businesses that received incentives during Fiscal Years 2012-13 through 2014-15.[8] Results were similar to prior OPPAGA surveys of incentive recipients, with respondents reporting that incentives are important to project decisions, although most are awarded to existing Florida businesses rather than companies relocating to the state.

Incentives are one of many factors businesses consider when making project decisions. Businesses consider a range of issues when evaluating locations for new projects. According to site selection consultants, 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. Site selection consultants note that when site characteristics are equal, incentives typically become very important.

When OPPAGA asked incentive recipients to identify the three most important factors that affected their company's decision to remain, locate, or expand in Florida, businesses that responded to the question cited state economic development incentives (68%), existing presence in Florida (54%), and the availability of a skilled workforce (40%) as the most important factors. When asked how important incentives were to the final location decision, businesses that responded said incentives were very important (52%) or important (39%).

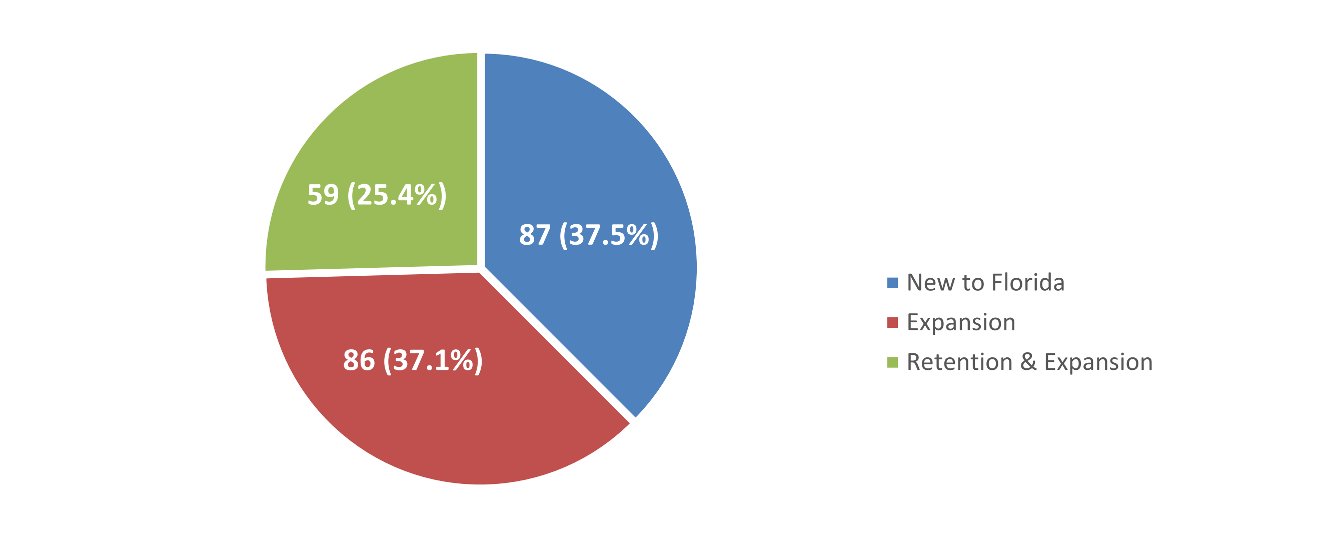
When asked how incentives benefitted their businesses, 81% of responding businesses reported that incentives helped them create new jobs and 54% said they helped them retain jobs. Businesses also reported that the incentives helped them purchase new equipment (39%), create new facilities (39%), expand current facilities (37%), and increase profitability (28%).

Most projects receiving incentives are existing Florida businesses. Although 62% of OPPAGA survey respondents reported that their projects were for expanding existing Florida businesses, only 4% of respondents said the incentives enabled their businesses to remain in Florida. And when asked what would have been the effect on their company's plans to conduct their projects in Florida had incentives not been awarded, 22% of businesses responding to the question said they would have proceeded with their projects as planned, while 37% said they would have proceeded with their projects on a smaller scale.

These survey findings are consistent with data provided by DEO for the 232 projects that received payments during the three-year review period. The majority of projects in the sample were expansions of existing Florida businesses rather than introduction of new companies to the state. Specifically, 63% of the projects involved were either an expansion of existing businesses or retention of existing businesses with the longer-term goal of expansion. (See Exhibit 11.)

[8] OPPAGA surveyed 204 of the businesses that received incentives during the evaluation period; 58 (28%) responded.

Exhibit 11
The Majority of Projects That Received Incentives in Fiscal Years 2012-13 Through 2014-15 Were for Existing Florida Businesses



Source: OPPAGA analysis of Department of Economic Opportunity data.

However, 61% of survey respondents reported that they considered pursuing their projects in other states. The most frequently mentioned states were California (24%), Texas (24%), Alabama (18%), and Georgia (15%). Other frequently mentioned states included Colorado, Massachusetts, New Jersey, and North Carolina. Had incentives not been awarded, 37% of respondents said that they would have proceeded with their projects in another state.

Most businesses receiving economic incentives have more than 1,000 employees. OPPAGA's analysis of businesses that received incentives in Fiscal Years 2012-13 through 2014-15 shows that incentives are typically awarded to large businesses. Specifically, the analysis of 214 projects for which there is data found that 14.5% of incentive recipients have fewer than 50 employees, while 51.9% of recipients have more than 1,000 employees. (See Exhibit 12.)

Exhibit 12
The Majority of Economic Incentives Are Awarded to Businesses With More Than 1,000 Employees

Business Size	Number of Projects	Percentage by Business Size Category
1 to 4 employees	4	1.9%
5 to 9 employees	2	0.9%
10 to 19 employees	9	4.2%
20 to 49 employees	16	7.5%
50 to 99 employees	17	7.9%
100 to 249 employees	19	8.9%
250 to 499 employees	15	7.0%
500 to 999 employees	21	9.8%
Over 1000 employees	111	51.9%
Total	**214**	**100%**

Source: OPPAGA analysis of Department of Economic Opportunity data.

Many businesses believe that the incentive claims and payment processes need improvement

OPPAGA's survey of businesses that received incentive payments during the three-year review period also asked respondents about the approval and payment processes and their interaction with the Department of Economic Opportunity (DEO). Although 75% of businesses expressed satisfaction with the assistance provided by DEO, 39% thought the incentive claims submittal process needed improvement, and 47% thought the incentive payment process needed improvement. In open-ended responses, businesses reported that the incentive claims submittal process that requires extensive supporting documentation was complicated, cumbersome, and time-consuming. In addition, businesses said that it took too long to receive incentive payments.

Verifying and paying claims is time-consuming. In 2013, the Legislature directed DEO to contract with a third-party auditor for compliance services and included a requirement to review 100% of all incentive claims. The first contract between the department and the third-party auditor began in February 2014. The third-party auditor reviews documentation to verify that the businesses created the jobs and paid the taxes specified in their written agreements with the state prior to recommending that the department pay the businesses. Since OPPAGA's 2014 review, the process has been improved, with businesses now able to electronically submit documentation for third-party review and the contractor required to process claims according to specified standards (e.g., provide a written claims review packet for every submitted claim).

To measure the timeliness of this process, OPPAGA examined data provided by DEO for 217 claims submitted between January 2014 and February 2016. The average time claims submissions spent with the third-party auditor during this period was 353 days, or nearly 12 months. The average time between claims submissions and incentive payments to businesses was 489 days, or more than 16 months.

Department managers and third-party auditor representatives provided several possible reasons for delays in the claims submission and payment processes.

- Companies filing Qualified Target Industry claims must do so by January 31; however, a company may request a 30-day extension. While DEO must approve or disapprove the claim by June 30, a company may request an extension beyond that date to provide the department with additional information.
- If the third-party auditor sees a variance, it may ask the company for additional information. For example, if the company says an employee's annual salary is $125,000, but unemployment compensation data shows that the figure is $100,000, the auditor must research the discrepancy and may ask the business for additional documentation.
- Sometimes a business has trouble providing documentation in a timely fashion because of staff turnover or its internal structure. For example, in large businesses, staff who apply for incentives, process payroll, and pay taxes may be in separate departments, thus increasing the amount of time it takes to collect information.
- The law requires that incentive claims include copies of all receipts pertaining to the payment of taxes. Some companies claim only their annual ad valorem tax payments. However, companies that receive refunds for sales taxes have to submit numerous receipts and other documents that take time to collect. This may be especially true for large companies with several offices or divisions.
- Some delays are related to local government matching fund requirements. DEO notifies the local governments at the same time it notifies the companies that they are eligible to receive payments. However, local governments may require "additional compliance" before a company receives the match.

Employment in most selected qualified target industries is below national levels

The Legislature encourages growth in high-wage jobs and economic diversity by providing incentives to qualified target industry (QTI) businesses. OPPAGA conducted economic analyses to determine how Florida's QTIs are performing relative to regional, state, and national economic and employment trends. The analyses used state and national employment data from 2006 to 2015 for six QTI industries—Manufacturing; Wholesale Trade; Information; Finance and Insurance; Professional, Scientific, and Technical Services; and Management of Companies and Enterprises.

OPPAGA calculated location quotients for the six selected QTI sectors and found little or no change in employment. Location quotients compare local employment in a given industry to statewide or national employment in that industry. Location quotients exceeding 1.0 indicate that levels of industry employment were higher than the state or national level. A positive change in location quotient indicates that the industry is growing relative to the state or nation. (See Exhibit 13.)

OPPAGA also conducted a shift-share analysis and found that two industries outpaced national and industry employment trends. Shift-share represents how much of the employment growth or decline in an 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 comprised of the three components listed below. The change in employment between 2006 and 2015 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.

The 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 all underperformed. (See Exhibit 14.)

Exhibit 13
Location Quotients for Six Florida Qualified Target Industries Show Little or No Growth for Several Sectors from 2006 to 2015

Florida Industry (NAICS)	Location Quotient (2015)	Change in Location Quotient
Manufacturing (31-33)	0.47	0.00
Wholesale Trade (42)	0.96	0.00
Information (51)	0.83	-0.07
Finance and Insurance (52)	1.04	0.04
Professional, Scientific and Technical Services (54)	0.99	0.00
Management of Companies and Enterprises (55)	0.74	0.07

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

Exhibit 14
Shift-Share Analysis for Six Florida Qualified Target Industries Shows the State Outpacing the Nation in Two Sectors from 2006 to 2015

Florida Industry (NAICS)	Employment Change	National Growth Share	Industry Mix Share	Regional Shift
Manufacturing (31-33)	-58,960	19,926	-71,828	-7,958
Wholesale Trade (42)	12,991	17,220	-17,807	-12,404
Information (51)	-31,274	8,285	-24,061	-15,498
Finance and Insurance (52)	-12,696	18,107	-34,657	3,854
Professional, Scientific and Technical Services (54)	56,350	22,323	52,372	-18,345
Management of Companies and Enterprises (55)	22,900	3,661	13,418	5,821

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

Some incentive programs struggle to meet long-term goals; increased accountability for the New Markets Development Program is needed

OPPAGA's 2014 report noted that the Enterprise Zone Program and the Innovation Incentive Program had not achieved some legislative goals. Subsequent to the report's release, the Legislature allowed the Enterprise Zone Program to expire and most Innovation Incentive Program recipients continued to underperform in meeting job requirements. In addition, Department of Economic Opportunity (DEO) has already allocated all of the New Markets Development Program tax credits, but assessment of program impact is hampered by current reporting requirements.

The Enterprise Zone Program will be completely phased out by 2018. In 2014, OPPAGA analyzed DEO and U.S. Census data to measure changes in selected enterprise zones over time and in comparison to similar non-zone areas. For economic indicators (median home value, median household income, unemployment rate, and poverty rate), the selected enterprise zones generally underperformed when compared to similar non-zone areas. For social indicators (infant mortality, educational attainment, crime rate, and population density), the selected enterprise zones showed mixed results, with a few zones outperforming comparison non-zone areas for some indicators.

Consistent with OPPAGA's findings regarding program effectiveness, the 2015 Legislature did not reauthorize the Enterprise Zone Program, allowing it to expire on December 31, 2015. Rather, the Legislature enacted Ch. 2015-221, *Laws of Florida*, closing the program to new applicants but temporarily preserving state incentives for certain businesses that are currently located within enterprise zones and have active state incentive agreements with DEO.[9] The law provides that until December 31, 2018, an eligible business may continue to apply for various enterprise zone incentives, including tax exemptions, refunds, and credits.

Most Innovation Incentive Program recipients have been unable to achieve job goals. 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.[10, 11] 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. Although the program has targeted primarily biotechnology businesses, 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.[12]

The program provides grants to qualified companies that the Governor has approved after consultation with the Legislature. Through Fiscal Year 2015-16, nine projects have received $435 million (96%) of the $456 million in total contracted Innovation Incentive Program funds.[13] Recipients receive incentive payments according to a schedule established via contract. (See Exhibit 15.)

[9] See Ch. 2015-221, *Laws of Florida*.

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

[11] 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.

[12] 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.

[13] 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 15
Since Program Inception, the State Has Paid Nine Innovation Incentive Recipients $435 Million

Incentive Recipient	Contract Date	Major Activities	Contracted	Received
Sanford Burnham Institute for Medical Research	10/30/2006	Studies the fundamental molecular mechanisms of diseases	$155,272,000	$153,777,513
Torrey Pines Institute for Molecular Studies[1]	11/16/2006	Conducts basic biomedical research related to disease treatment	24,728,000	27,772,000
SRI International	11/22/2006	Studies surface and subsurface marine environments	20,000,000	19,874,230
Hussman Institute for Human Genomics	1/9/2008	Explores genetic influences on human health	80,000,000	59,200,000
Max Planck Florida Corporation	3/12/2008	Uses bio-imaging to study microscopic molecular processes	94,090,000	94,090,000
Vaccine Gene Therapy Institute	4/17/2008	Develops vaccines and therapeutics for diseases afflicting the elderly	60,000,000	60,000,000
Charles Stark Draper Laboratory, Inc.	6/30/2008	Develops miniature medical technologies and military guidance systems	15,000,000	14,000,000
IRX Therapeutics, Inc.	10/28/2011	Develops therapies designed to activate patients' immune systems to fight cancer and related diseases	600,000	600,000
Embraer Engineering and Technology Center	2/12/2013	Conducts engineering and development activities related to various types of aircraft	6,000,000	6,000,000
Total			**$462,962,000**	**$435,313,743**

[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.

Each innovation incentive project must have a performance-based contract containing specific milestones that a company must achieve in order for it to receive grant payments. For example, all contracts require program recipients to create minimum numbers of jobs, and seven of the nine contracts require program recipients to spend minimum amounts of capital investments. (See Exhibit 16.) However, OPPAGA found that several program recipients will be unable to fulfill their long-term performance requirements.

As of June 30, 2016, program recipients had created less than half of the jobs they committed to create in their contracts. According to DEO managers, only Embraer and Max Planck are currently meeting their performance requirements. The Hussman Institute, SRI International, and Torrey Pines are behind schedule in meeting their performance requirements. In addition, Sanford Burnham was negotiating a transfer of its facility to the University of Florida prior to leaving the state; however, the university withdrew from negotiations in October 2016. The department then notified Sanford Burnham that it was in material default of its agreement with the state for failing to remain in Florida for the 20 years required by the contract. The department further demanded that Sanford Burnham refund $77.6 million of the $155.3 million it received from the state.

Draper Laboratory moved a significant portion of its operations from Florida to Massachusetts where the institute is headquartered; DEO is attempting to recover the $14 million the laboratory received from the state. The Vaccine Gene Therapy Institute has closed its operations, and the department is trying to sell the equipment left behind. Finally, IRX never moved to Florida as planned; DEO has recovered most of the $600,000 paid to the company.

Exhibit 16
Most Innovation Incentive Program Recipients Have Not Met Job Requirements

Incentive Recipient	Employment		Capital Investment	
	Committed	Confirmed	Committed	Confirmed
Sanford Burnham Institute for Medical Research	303	240	$61,412,000	$42,517,700
Torrey Pines Institute for Molecular Studies[1]	189	124	0	0
SRI International	200	65	2,000,000	2,046,803
Hussman Institute for Human Genomics	296	139	0	0
Max Planck Florida Corporation	135	133	16,830,000	18,788,324
Vaccine Gene Therapy Institute	200	120	10,000,000	6,717,621
Charles Stark Draper Laboratory, Inc.	165	61	5,000,000	5,008,796
IRX Therapeutics, Inc.	283	0	9,817,732	0
Embraer Engineering and Technology Center	200	45	24,205,000	1,280,848
Total	**1,971**	**927**	**$129,264,732**	**$76,360,092**

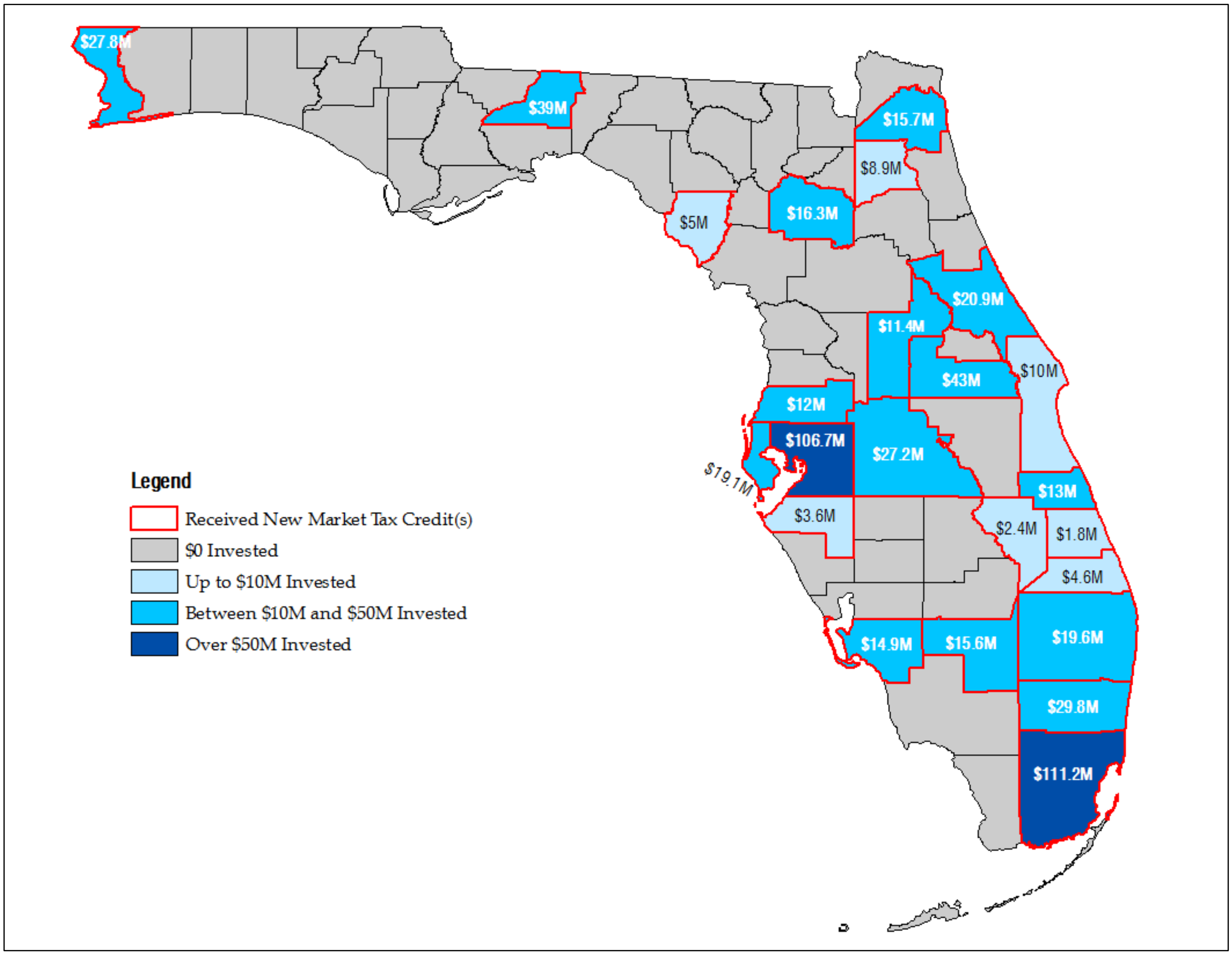
Source: Department of Economic Opportunity.

New Markets Development Program projects are primarily located in two counties and most capital is invested in four industries; inadequate reporting requirements hamper assessment of program impact. From its inception in Fiscal Year 2009-10 through Fiscal Year 2014-15, the New Markets Development Program has allocated $216 million in tax credits to 18 community development entities (CDEs); 2 CDEs received over half (54%) of all tax credits allocated.[14] Currently, there are no formal criteria for allocating tax credits. Rather, prior to Fiscal Year 2013-14, DEO allocated tax credits on a first-come, first-served basis, and in Fiscal Years 2013-14 and 2014-15, it allocated the same amount of tax credits to each applicant. These tax credits were used to finance $579.9 million of investment capital into 83 qualified active low-income community businesses (QALICBs). Investors claimed $69 million of tax credits against insurance premium and corporate income taxes from calendar years 2011 through 2014.

OPPAGA's analysis of DEO data indicates that since program inception, the 83 QALICBs received investments across 24 counties. (See Exhibit 17.) The counties receiving the most investments were Miami-Dade and Hillsborough, which received 19% and 18% of the total investment capital, respectively. Together, these counties received approximately $217.9 million of the $579.9 million total investment capital.

[14] The Legislature has not authorized additional tax credits since 2014.

Exhibit 17
New Markets' Investments Are Spread Across 24 Counties; Miami-Dade and Hillsborough Counties Received the Most Investment Capital Through the Program



Source: OPPAGA analysis of Department of Economic Opportunity data.

Further OPPAGA analysis of program data shows that the 83 QALICBs span 15 industries. Businesses in four industries account for almost two-thirds of all investments made through the program: Manufacturing (27%); Health Care and Social Assistance (16%); Wholesale Trade (11%); and Arts, Entertainment, and Recreation (10%).[15] Job creation in these four industries is also expected to be strong, with 64% of projected new jobs occurring in these four industries. Community development entities project 1,558 jobs will be created across these four industries out of 2,426 total projected new jobs.

Florida law requires that for each year following a tax credit allowance, CDEs must submit an annual report to DEO for every investment made in a qualified active low-income community business. The annual report must include

- type of industry in which the investments were made;
- names of the counties where each QALICB is located;
- number of jobs created and retained by each QALICB;

[15] Businesses' industry areas were determined using North American Industry Classification System (NAICS) codes. The following two-digit NAICS codes were used: Manufacturing (31, 32, and 33); Health Care and Social Assistance (62); Wholesale Trade (42); and Arts, Entertainment, and Recreation (71).

- wages associated with created and retained jobs, as well as verification that the wages meet or exceed 115% of the federal poverty income guidelines for a family of four; and
- documentation to verify continued certification as a qualified community development entity.

However, jobs data are aspirational and wages are not verified by DEO. Program staff and CDE managers both reported that annual jobs numbers are the total projected jobs to be created or retained by the end of the seven-year investment period. Therefore, the jobs data reported for a given QALICB each year are not verified and will not change year-to-year unless the total number of projected jobs changes. In addition, DEO does not currently verify the wages reported by CDEs using Department of Revenue payroll tax records. This means that both jobs and wages data for the program are unverified and may not be accurate.

OPPAGA cannot assess the full economic impact of the program on local communities without more information on how investment capital is used by QALICBs. Of the total amount invested through the program, OPPAGA cannot determine how much capital was used to make capital improvements, purchase equipment, finance existing debt held by those businesses, or purchase an equity investment in the QALICBs themselves. Better data would provide a more accurate picture of the economic benefits that these investments have in some of the state's most economically impoverished communities.

Additionally, current reporting requirements do not capture the full spectrum of benefits that the program generates. While job creation and capital investment are important components of local community development efforts, current reporting requirements do not account for the social benefits and services that projects create for people living in these low-income communities. For example, OPPAGA determined that program tax credits facilitated a $4.8 million investment in a domestic violence shelter in the Tampa Bay area. This investment assisted with the construction of a new facility and created 17 jobs ($29,120 average annual income). Moreover, since opening in July 2015, the shelter more than tripled its capacity and provided mental health, addiction counseling, legal assistance, and youth education to over 1,100 clients annually. However, the state's existing annual reporting requirements do not account for projects' social benefits.

Recommendations

Based on examination of Department of Economic Opportunity (DEO) administration and monitoring activities, OPPAGA recommends that the Legislature and DEO consider the following steps to improve the department's management of state incentive programs.

The Legislature could consider phasing out the Innovation Incentive Program. Given the program's generally weak performance, the Legislature may wish to consider phasing it out. The program has created less than half of the required jobs, and several recipients have left the state prior to contract completion. If the program were discontinued, some businesses that would have been eligible for program funding may be eligible for funding from other economic development incentive programs, such as the Qualified Target Industry Program.

If the Legislature chooses to authorize additional New Markets Development tax credits, it could consider directing DEO to use scoring criteria when allocating tax credits. DEO initially allocated tax credits to community development entities (CDEs) on a first-come, first-served basis, and then later allocated an equal number of tax credits to each eligible CDE. In contrast, the U.S. Department of the Treasury allocates Federal New Markets tax credits using a scoring criteria with outcomes such as job creation and services to low-income communities. The Legislature may wish to consider requiring DEO to establish a scoring criteria to award tax credits to those projects with the greatest estimated impact in terms of job creation, wages, and capital investment.

DEO should improve New Markets Development Program oversight, and the Legislature could consider expanding reporting requirements. To adequately measure the economic impact of the program on low-income communities, DEO should improve its annual reporting criteria in two ways: (1) have community development entities report actual job creation for the prior year rather than total projected job creation over the life of the program, and (2) verify wages reported by CDEs using Department of Revenue tax records.

In addition, if the Legislature chooses to appropriate additional tax credits to the program, it may wish to strengthen statutory reporting criteria by requiring CDEs to report how investment capital is used by businesses receiving the investments. For example, this could include a breakdown of what percentage of the investment was used to purchase equipment, make capital improvements, finance existing debt held by the businesses, or purchase an equity investment in the business itself. Lastly, the Legislature could consider expanding statutory reporting requirements to include the social benefits or services that businesses provide to local communities. For example, a health clinic or after school program could annually report the type of service provided and the total number of service recipients.

DEO should improve the timeliness of the incentive claims and payment processes. OPPAGA found that the average time claims submissions spent with the third-party auditor during this period was 353 days, or nearly 12 months, while the average time between claims submissions and incentive payments to businesses was 489 days, or more than 16 months. To improve the timeliness of the incentive claims and payment processes, DEO should educate businesses about documentation requirements early in the incentive application process. DEO should also provide businesses with technical assistance during the claims submission process. These steps could facilitate businesses' timely submission of required information. In addition, the department could examine the claims and payment processes to determine if there are opportunities for further improvement.

Agency Response

In accordance with the provisions of s. 11.51(2), *Florida Statutes*, a draft of our report was submitted to the Department of Economic Opportunity (DEO) and Enterprise Florida, Inc. DEO's written response has been reproduced in Appendix B.

Appendix A

Detailed Description of Economic Development Incentive Programs

New Markets Development Program (NMDP)

Purpose. The 2009 Legislature created the NMDP to encourage capital investment in rural and urban low-income communities by allowing taxpayers to earn credits against specified taxes by investing in qualified active low-income community businesses (QALICB) to create and retain jobs.[16] The Department of Economic Opportunity (DEO) allocates tax credits to qualified community development entities (CDEs), who then provide tax credits to investors when an investment is made in a QALICB. Florida's NMDP is modeled after the federal New Markets Tax Credit Program, which also aims to attract private capital into low-income community businesses.

To be eligible for an investment through the program, a QALICB must be located in a census tract where the poverty rate is at least 20%, or the median family income does not exceed 80% of the statewide median. A CDE may only receive a tax credit allocation from DEO if it is certified by the U.S. Department of the Treasury as a qualified community development entity and has entered into an allocation agreement to receive federal new markets tax credits through the Community Development Financial Institutions Fund.[17]

Taxpayers who invest in QALICBs through qualified CDEs receive tax credits equal to 39% of their investment amount. The holder of these tax credits may claim 7% of its investment amount in the third tax year following their credit allocation, and 8% per year in years four through seven. Credits may be applied against corporate income tax or insurance premium tax, although an insurance company holding tax credits must apply them against its annual insurance premium tax liability. A taxpayer may not claim credits in excess of its tax liability, and any unused credits in a given year may be carried forward up to five years. Credits may not be sold and may only be transferred to an affiliated entity of the initial investor.[18]

History. When the NMDP was created, DEO was authorized to award no more than $97.5 million of tax credits during the existence of the program, with no more than $20 million of tax credits becoming eligible to claim for the first time in a single fiscal year.[19] The Legislature has enacted changes to the program three times (in 2012, 2013, and 2014) since inception to increase the amount of tax credits available for the program to facilitate further investments into low-income community businesses.[20] In each of those years, the Legislature increased the total amount of tax credits that may be awarded, as well as the maximum amount of tax credits that may be claimed for the first time in a single fiscal year. Currently, DEO is authorized to award no more than $216.3 million of tax credits with no more than $36.6 million of tax credits becoming eligible to claim for the first time in a single fiscal year.[21] All other aspects of the program have remained the same since program inception.

[16] Section 288.9912, *F.S.*

[17] A CDE is defined by the U.S. Department of the Treasury as a domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments, or financial counseling in low-income communities.

[18] Only partners, members, or shareholders of a partnership, limited liability companies, S-corporations, or other "pass-through" entities of the initial investor may receive a transfer of tax credits.

[19] Chapter 2009-50, *Laws of Florida*.

[20] Chapters 2012-32, 2013-42, and 2014-38, *Laws of Florida*.

[21] Chapter 2014-38, *Laws of Florida*.

Capital Investment Tax Credit Program (CITC)

Purpose. The 1998 Legislature created CITC to encourage high-impact sector businesses to make significant capital investments to build, expand, or locate physical facilities within Florida.[22] 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.

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.[23] 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.[24]

History. The Legislature has enacted numerous changes to CITC 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. (EFI), researches and recommends the business sectors that should be designated as high impact; the Department of Economic Opportunity (DEO) makes the final decision regarding these designations.[25] High-impact sectors have evolved over time and currently include the following business sectors: Transportation Equipment (Aviation/Aerospace), Information Technology, Life Sciences, Financial Services, Corporate Headquarters, and Clean Energy.

In addition, several significant program amendments allow businesses outside of high-impact sectors to qualify for CITC. 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.[26] Target industry business sectors are determined through consideration of specified criteria, such as industry growth potential, industry stability, and average industry wages.[27] Target industries include all high-impact sectors and businesses working in homeland security and defense; target industry designations are reviewed every three years.[28]

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.[29] 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.[30] 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.[31] The amendment only applies to high-impact sector projects that qualify for tier 3.

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

[23] 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.

[24] 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.

[25] At the time of CITC's creation, 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*.

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

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

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

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

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

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

Brownfield Redevelopment Bonus Refund

Purpose. The 1997 Legislature created the Brownfield Redevelopment Bonus Refund Program to encourage redevelopment and job creation within designated brownfield areas.[32] 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.[33] 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 Brownfield Redevelopment Bonus Refunds of $2,500 per new job created.

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.

In response to the Deepwater Horizon oil spill, the 2011 Legislature authorized the Department of Economic Opportunity (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.[34]

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 (DEP) or a local government delegated by DEP has been executed under the Brownfield 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.

DEO has implemented the new eligibility requirements as directed by law. As of August 2016, department records showed that 12 brownfield projects had been certified since the law took effect on May 20, 2013. All projects were exempted under state law. OPPAGA’s file review for these projects found that six had site rehabilitation agreements, three had local government resolutions adopted before the law’s effective date, and three had letters of intent signed prior to the law’s effective date.

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

[33] 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.

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

Qualified Target Industry Tax Refund Program (QTI)

Purpose. The 1994 Legislature created QTI to encourage the recruitment or creation of high-paying, high-skilled jobs within specific industries.[35] 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.[36, 37]

QTI 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). 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.

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 QTI 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.(EFI), must use when identifying target industries.

In response to the Deepwater Horizon oil spill, the 2011 Legislature authorized the Department of Economic Opportunity (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.[38] 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.[39]

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

[36] 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.

[37] 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.

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

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

Enterprise Zone Program (EZ)

Purpose. The 1982 Legislature created the EZ Program to provide incentives to induce private investments in economically distressed areas of the state.[40] 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.[41]

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).[42] Rural enterprise zones are located in counties with populations that generally do not exceed 100,000.[43] Of the 65 enterprise zones within the state, 29 are rural and 36 are urban.

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 Department of Economic Opportunity (DEO) for inclusion in the enterprise zone annual report. DEO 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 EZ 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.[44] 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.

In 2010, the Legislature amended the definition of real property by excluding condominiums from the building materials sales tax refund incentive.[45] In October 2011, management of the EZ Program was transferred from the Office of Tourism, Trade, and Economic Development 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.

Most recently, the 2015 Legislature allowed the program to expire as provided in state law. The Legislature enacted Ch. 2015-221, *Laws of Florida*, closing the program to new applicants but temporarily preserving state incentives for certain businesses that are currently located within enterprise zones and have active state incentive agreements with DEO.

[40] 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.

[41] Local incentives include occupational license fee reduction; municipal utility tax abatement; façade renovation and/or commercial revitalization; loans and grants; 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.

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

[43] 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.

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

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

High Impact Performance Incentive Grant Program (HIPI)

Purpose. The 1997 Legislature created HIPI to increase Florida's competitive position by attracting, retaining, and growing high-impact businesses.[46] 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 high impact sectors. Second, the Department of Economic Opportunity (DEO) 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. 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 DEP. Fifty percent of the grant funds are available upon certification of the commencement of operations; this commencement must occur within 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.

History. The Legislature has made relatively minor changes to the HIPI 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.

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

Innovation Incentive Program

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.[47, 48] 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.[49]

The Innovation Incentive Program provides grants to qualified companies that the Governor has 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.[50] 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.[51] 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 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.[52]

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.[53] 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.[54] 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.[55]

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.

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

[48] 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.

[49] 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.

[50] Enterprise Florida Inc., 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.

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

[52] 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.

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

[54] 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.

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

Quick Action Closing Fund Program (QAC)

Purpose. The 1999 Legislature created 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.[56] 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. (EFI), and the Department of Economic Opportunity (DEO) 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 and 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 and 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

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 QAC 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.[57] 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.[58] 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.[59]

Finally, in 2011, the Legislature specified the roles of DEO and EFI 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.

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

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

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

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

Appendix B

Rick Scott
GOVERNOR

FLORIDA DEPARTMENT of ECONOMIC OPPORTUNITY

Cissy Proctor
EXECUTIVE DIRECTOR

January 27, 2017

Mr. R. Phillip Twogood, Coordinator
Office of Program Policy Analysis and Government Accountability
111 West Madison Street, Suite 312
Tallahassee, Florida 32399-1475

Dear Mr. Twogood:

In the past six years, Florida has undergone a remarkable transformation after experiencing one of the worst downturns in the nation during the recession. Thanks to Governor Rick Scott and the Legislature's commitment to job creation and the pursuit of pro-growth policies, Florida's economy has recovered with strength and certainty.

During the recession, Florida was hit hard. Unemployment increased to 11.2 percent. Private-sector businesses lost more than 900,000 jobs. And job demand continued to fall, along with housing prices.

Since 2010, more than 1.26 million individuals have found new jobs. Communities across the state are growing as new buildings rise, companies expand and empty homes fill with a steady stream of new residents. Over the past six years, the state's unemployment rate has been cut by more than half. Since December 2010, Florida's private-sector jobs and labor force have increased more than the nation's, and our gross domestic product growth beat the nation last year.

With a GDP of $883 billion in 2015, Florida's economy is the fourth largest in the U.S. and would rank 16th in the world if it were a country. With more than 13,000 new businesses created in 2015, the state's business creation is second in the nation. Florida's low cost of living helps to maintain its strong job market and global competitiveness. Florida welcomed more than 106 million visitors in 2015, including 15.3 million visitors from other countries.

Across the country, people know that Florida is the best place to get their dream job. Here at the Florida Department of Economic Opportunity, we're working to create a competitive business environment that fosters new business across the state.

Florida Department of Economic Opportunity | Caldwell Building | 107 E. Madison Street | Tallahassee, FL 32399
850.245.7105 | www.FloridaJobs.org
www.twitter.com/FLDEO |www.facebook.com/FLDEO

Mr. R. Phillip Twogood
January 27, 2017
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DEO seeks to continually improve the efficiency and effectiveness of our functions. We welcome the opportunity to review your report, and the following is DEO's initial response to the observations and recommendations in the report.

Pursuant to section 11.51(2), Florida Statutes, this letter is DEO's response to the report titled: *Florida Economic Development Program Evaluations – Year 4*. We thank you and your staff for the review of our state's key economic development incentive programs and appreciate your detailed analysis.

Overall, projects that received payments during the review period have created 33,627 new jobs and made $3.3 billion in capital investments.

We agree with your observation that projects in the review population have already created more than 33,000 new jobs and invested $3.3 billion in capital investments. As the report indicates, some of these projects are in active status. The active projects are in good standing – each meeting job requirements and other long-term performance goals, yet, as of this report date, not all of the contractual requirements are due or achieved. Because these projects have multiple years of additional performance scheduled, to date, the total new jobs created and capital investment have not yet reached the totals committed for future years. Payments on these incentive projects will not occur until full performance measures have been met, as is required under the strict measures put into place by Governor Scott since 2011.

During the review period, DEO terminated 134 incentives that failed to meet performance goals; terminated incentives were scheduled to create 12,822 jobs and make $195 million in capital investments.

The report provides a summary of incentive agreements that DEO terminated during the review window that were scheduled to create jobs and make capital investment over multiple years. DEO's incentive agreements are performance-based, and businesses that do not meet specified performance benchmarks do not qualify for payments. The terminated agreements OPPAGA identified received no incentive funds.

Incentive agreements are terminated for a variety of reasons, including, but not limited to, change in business plans, businesses not meeting performance requirements, or businesses not filing performance claims. The fact that these agreements were terminated does not mean that the businesses have ceased operations in Florida or left the state. In each case of termination, no incentive funds were paid to the business, and taxpayers' funds were appropriately protected.

The majority of economic incentives are awarded to businesses with more than 1,000 employees.

The report provides an analysis of the number of incentives awarded to businesses of various sizes, and represents that slightly more than half of the incentive recipients are businesses that have 1,000 or more employees. The report also points out that many jobs are added by small businesses. While Florida continues to benefit from significant job creation and capital investment by large businesses, it is also noteworthy that approximately 38 percent of the incentive recipients fall within the federal definition of a small business. The report's analysis of incentive recipients shows a variety of small, medium and large businesses are approved for incentives and choose to locate or expand in Florida. In addition, DEO remains committed to small businesses throughout the state through the support provided by programs such as the Florida Microfinance Program and State Small Business Credit Initiative.

Most Innovation Incentive Program recipients have not met job requirements.

The vast majority of the Innovation Incentive projects included in this report were approved and awarded funds between 2006 and 2008, before Governor Scott took office and before Governor Scott reformed the incentive process. It is important to note that these incentives were evaluated, approved and contracted through a very different process than is in place today. Since 2011, we have made significant changes to the incentives application and approval process and our due diligence procedures. These improvements, together with improved deal structures and contracts, have provided an enhanced level of protection for the taxpayer's investment.

DEO should improve the timeliness of the incentive claims and payment processes.

DEO continually seeks to improve its incentive claims process both with respect to service to businesses and accountability to taxpayers. As the report indicates, 75 percent of businesses expressed satisfaction with assistance provided by DEO, and transitioning to electronic submissions has made the process more user-friendly. In FY 2014-15, the review process to pay economic incentive claims was completed in 23 months. By FY 2015-16, the review process to pay economic incentive claims was completed in 13 months, cutting the time almost in half. The agency's current goal is to further reduce the time it takes to pay economic incentive claims to nine months, another 30 percent reduction, by the end of this fiscal year. DEO will continue its efforts to improve the efficiency of its incentive claims process. DEO's plan for continued improvement of the claims process includes providing additional educational opportunities for businesses as part of incentive agreement negotiation process and as part of the performance claims filing process. This will help businesses prepare for and understand how performance will be measured and what documentation will be required.

DEO should improve New Markets Development Program oversight.

The report states that there are no formal criteria for selecting recipients; however, DEO follows the process as outlined in state statute. Qualified community development entities (CDEs) must submit an application to DEO for approval of a proposed investment as a qualified investment. The application is reviewed and approved or denied based on the statutory criteria. Additionally, the definition of a qualified CDE in Florida statute requires certifications and agreements with the U.S. Department of Treasury. Including these federal requirements in the definition of a qualified Florida CDE provides the state with a thorough vetting process without duplicating these processes at the state level. DEO agrees that CDEs must include the number of jobs created and retained by each qualified active low-income community business in their annual report submitted to DEO, as outlined in section 288.9918, Florida Statutes. We will continue to work with the entities to ensure that this requirement is understood and require jobs created to be reported accordingly.

Two CDEs received over half of all tax credits allocated through the New Markets Development Program.

In the first two years of the program, very few CDEs applied for tax credits resulting in the largest allocation received to-date by the program ($97.5 million) being largely split between two CDEs. Since program inception, the number of qualified applicants has increased. In addition, DEO now divides credits among all qualified applicants equally, resulting in the wider distribution of credits. However, because of the large allocation that went to a small number of CDEs in the first and second year of the program, the cumulative total is significantly larger for those two CDEs.

Again, we thank you and your staff for the review and will take under advisement the recommendations provided to enhance the state's economic development programs.

Sincerely,

Cissy Proctor
Executive Director

The Florida Legislature

Office of Program Policy Analysis and Government Accountability

OPPAGA provides performance and accountability information about Florida government in several ways.

- Reports deliver program evaluation and policy analysis to assist the Legislature in overseeing government operations, developing policy choices, and making Florida government more efficient and effective.
- Government Program Summaries (GPS), an online encyclopedia, www.oppaga.state.fl.us/government, provides descriptive, evaluative, and performance information on more than 200 Florida state government programs.
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