Florida Economic Development Program Evaluations – Year 7

Report No. 19-16

December 2019

OPPAGA

Office of Program Policy Analysis and Government Accountability

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EXECUTIVE SUMMARY

Incentive programs under review this year include tax credit, tax refund, and cash grant incentives.[1] These programs intend to attract businesses to and grow businesses in Florida. Six of the eight programs under review involve projects with contractual agreements.

Projects with contractual agreements received $167.2 million in state incentive funds in Fiscal Years 2015-16 through 2017-18. These projects created 26,004 jobs and $1.5 billion in capital investment. No Innovation Incentive Program projects received payments during our review period. Approximately one-half of businesses receiving incentive payments via contractual agreements were existing Florida businesses that have over 1,000 employees.

The Legislature phased out the Enterprise Zone Program in 2018 but provided $25.3 million in tax credits and refunds to businesses and individuals during our review period. During the period, investors claimed $118.7 million in tax credits for the New Markets Development Program.

REPORT SCOPE

Chapter 288.0001, *Florida Statutes,* requires the Office of Program Policy Analysis and Government Accountability (OPPAGA) to provide a detailed analysis of state economic development programs according to a recurring schedule. OPPAGA must evaluate each program over the previous three years for effectiveness and value to the state's taxpayers and include recommendations for legislative consideration. This review period covers Fiscal Years 2015-16, 2016-17, and 2017-18.

Regarding concerns we noted in the prior review period, the Department of Economic Opportunity (DEO) improved the timeliness of incentive claims and payment processes. However, all of our other recommendations from the prior review period remain. We continue to recommend that the Legislature phase out the Innovation Incentive Program. Further, 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. Lastly, DEO should improve New Markets Development Program oversight.

[1] For previous OPPAGA analyses of these incentives, see *Florida Economic Development Program Evaluations – Year 1,* Report No. 14-01, January 2014, and *Florida Economic Development Program Evaluations – Year 4,* Report No. 17-02, January 2017.

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 businesses to and grow businesses in Florida, which includes promoting job creation and attracting capital investment. In addition, several programs have other goals, such as revitalizing economically distressed areas and encouraging emerging technology cluster development. (See Exhibit 1 and Appendix A for a more detailed description of each program.)

Exhibit 1
Incentive Programs Under Review This Year Include Tax Credit, Tax Refund, and Cash Grant Incentives[1]

Program	Incentive	Statute
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 the lesser of $15 million or 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. A business can receive a stand-alone tax refund or a refund in conjunction with a Qualified Target Industry (QTI) tax refund, paying a bonus of $2,500 per job over and above the QTI refund; provides a $2,500 per job refund for a non-QTI project that meets 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, could have received 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 used 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*.

Program Administration

Four entities are primarily responsible for administering these eight incentive programs: Enterprise Florida, Inc. (EFI), the Department of Economic Opportunity (DEO), the Department of Financial Services (DFS), and the Department of Revenue (DOR). EFI advertises and markets incentive programs to businesses seeking to expand or locate in Florida, assists businesses that apply for incentives, and recommends projects to DEO.

DEO conducts due diligence processes and certifies businesses to receive incentives. Businesses receiving incentives from these programs, except the Enterprise Zone and New Markets Development Programs, enter into multi-year contractual agreements with DEO. These agreements include a schedule for meeting performance requirements such as job creation and capital investment. DEO monitors businesses' compliance with agreements and decertifies or terminates businesses that do not meet performance requirements.[2]

If DEO determines that a business met its performance requirements, it approves an incentive claim and submits a payment request to DFS, which reviews the request and supporting documentation, authorizes payment, and issues a warrant to the business. Separately, DOR approves claims for tax credit programs (Capital Investment Tax Credit and New Markets Development Programs) and approves tax credits and refund claims for the Enterprise Zone Program.

Program Funding – Contracted Projects

Projects with contractual agreements received $167.2 million in state incentive funds during the review period. To examine program costs, OPPAGA reviewed projects that received an incentive payment (e.g., grant payment, tax refund, or tax credit) during at least one year of the review period (Fiscal Years 2015-16 through 2017-18). This analysis is limited to the six incentive programs involving contractual agreements (Brownfield Redevelopment Bonus Refund, Capital Investment Tax Credit, High Impact Performance Incentive Grant Program, Innovation Incentive Program, Qualified Target Industry Tax Refund, and Quick Action Closing Fund). The cost of the Enterprise Zone and New Markets Development Programs are discussed later in this report.

The majority of contracted projects are "active" and remain eligible to receive incentive funding. The department uses status categories to classify contract activity—active, complete, inactive, terminated, vacated, and withdrawn.[3] Of the 229 projects that received funds during the review period, 140 (61%) were active. For the remaining projects, 49 (21%) were complete, 37 (16%) were inactive, and 3 (1%) were terminated.[4]

The state awarded $238.8 million in incentive funds to the 229 contracted projects. (See Exhibit 2.) During the review period, these projects received a total of $167.2 million in incentive payments. Most projects (180) received tax refunds from the Qualified Target Industry Tax Refund Program, while only six projects received High Impact Performance Incentive grant payments. While projects can receive payments from multiple incentive programs, 209 projects (91%) received one incentive and 20 (9%) received two.

[2] A third-party auditor reviews all incentive claims and presents its findings to DEO, which reviews the findings and determines eligibility before approving payment.

[3] Active means that the business is currently performing and in good standing. DEO classifies businesses that met their contract terms and received eligible payments as "complete." An "inactive" business has received one or more incentive payments after meeting a portion of its contract commitments but is ineligible for future payments. A "vacated" business is one that never signed a contract; therefore, no agreement was executed. DEO can "terminate" a business for not meeting its contractual agreement, making it ineligible for future payments. A business can also voluntarily "withdraw" from an incentive program and choose not to pursue current or future payments.

[4] The review included all projects that received an incentive payment during at least one year of the review period, regardless of status.

Exhibit 2
Contracted Projects Received $167.2 Million During the Review Period

Program	Projects	Total Awarded	Amount Received During Review Period
Capital Investment Tax Credit	10	N/A[2]	$81,520,867[3]
Quick Action Closing Fund	33	$85,201,440	43,395,096[4]
Qualified Target Industry Tax Refund	180	112,645,100	24,768,018
- Brownfield Redevelopment Bonus	7	9,679,000	1,991,475
High Impact Performance Incentive	6	25,740,000	13,620,659
Brownfield Redevelopment Bonus Refund	13	5,505,000	1,930,292
Total	**249[1]**	**$238,770,540**	**$167,226,407**

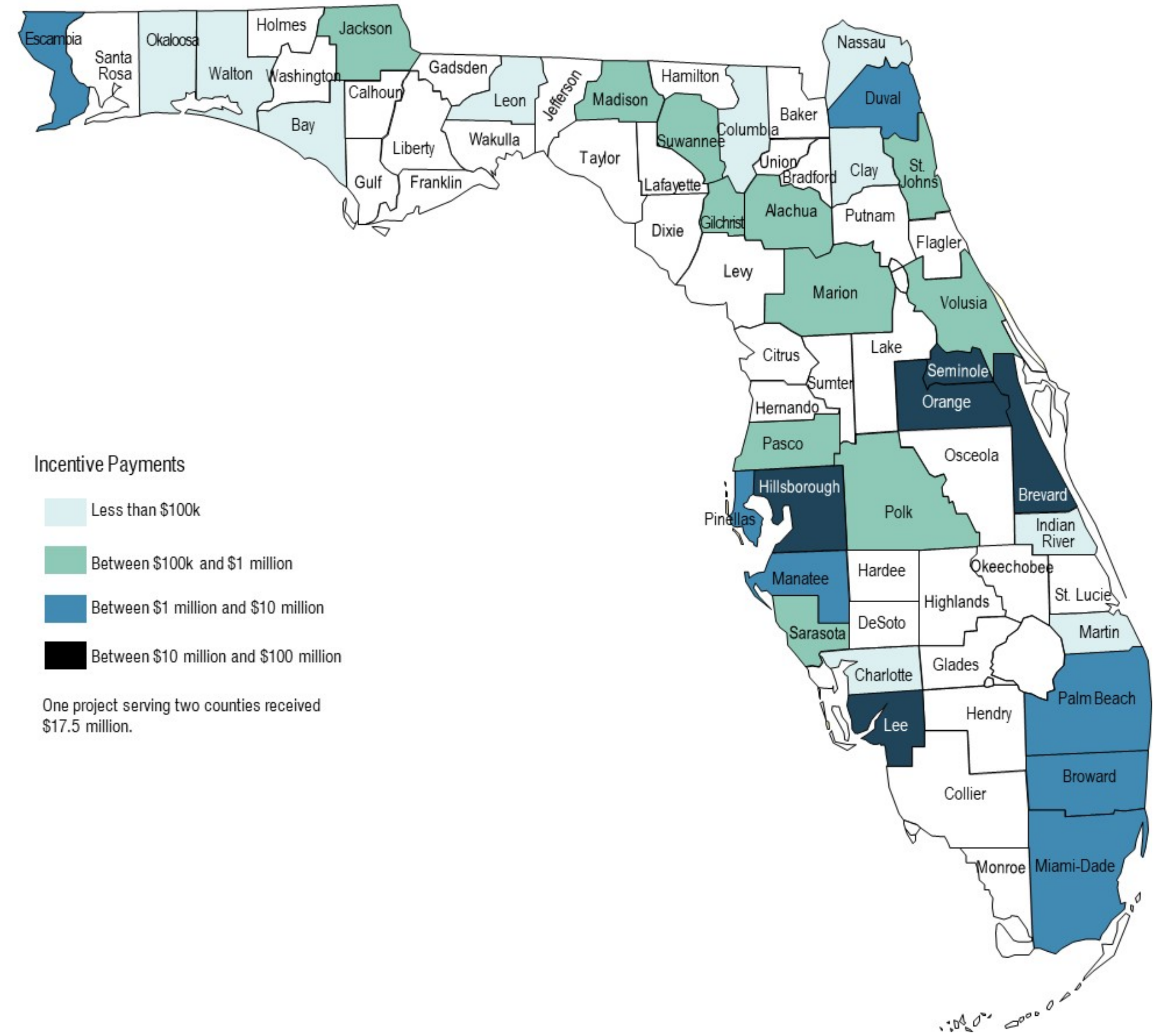
[1] A project can receive funds from more than one program. This total is the number of unique incentive projects.
[2] Companies are not awarded incentive funds but can take credit against taxes paid.
[3] Amount claimed by businesses against taxes paid for calendar years 2015 through 2018.
[4] Funds obligated to businesses under this program are placed in an escrow account and dispersed upon meeting performance requirements. As of September 2019, the escrow account had a remaining balance of $59.4 million for projects in this program.
Source: OPPAGA analysis of Department of Economic Opportunity and Department of Revenue data.

No Innovation Incentive Program projects received payments during our review period. DEO reports that three businesses participated in the program during our review period, but two of these businesses did not meet their performance requirements and repaid $12.7 million in state incentive funds. These businesses' projects are inactive and no longer eligible to receive incentive funds. The remaining business is active but in a maintenance phase and will not receive additional payments.[5]

Incentive payments for contracted projects were distributed across 33 Florida counties, with totals varying widely by county. During the review period, 10 counties received total incentives of less than $100,000, while 11 received between $100,000 and $1 million, and 7 received between $1 million and $10 million. Only five counties received total incentives exceeding $10 million; these counties are Brevard, Hillsborough, Lee, Orange, and Seminole. (See Exhibit 3.)

[5] The business received payment but must maintain jobs, wages, and capital investment and report annually on program requirements until 2033, unless terminated early.

Exhibit 3
Contracted Projects That Received Incentive Funds During the Review Period Are Located in 33 Counties

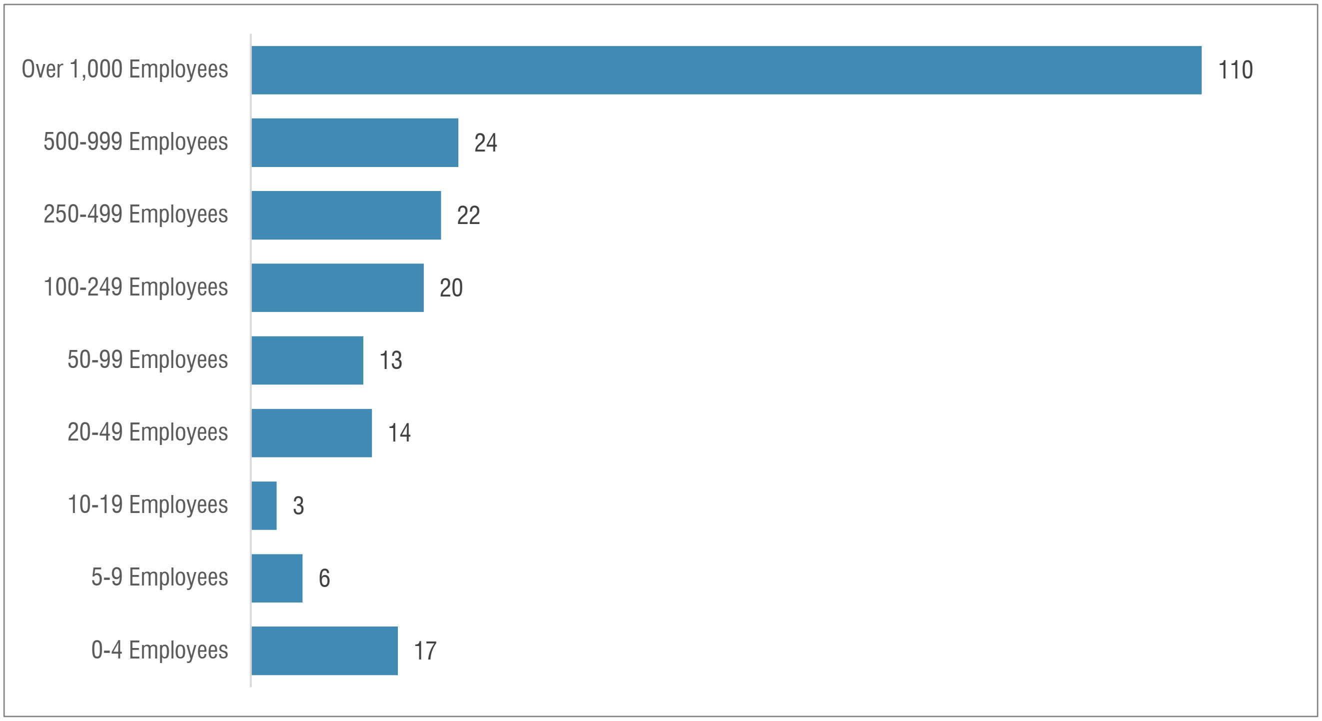


Note: Enterprise Zone and New Markets Development Program incentives are not included.
Source: OPPAGA analysis of Department of Economic Opportunity data.

Many businesses that received incentive payments were large and had previously existed in Florida. Similar to our Year 4 report on economic development incentive programs, the majority of contracted projects (67%) that received incentive payments were expansions of existing Florida businesses rather than new companies to the state.[6] Additionally, almost half of businesses that received an incentive payment are large. Specifically, 17% of projects that received incentive payments have fewer than 50 employees, while 48% of projects have more than 1,000 employees. (See Exhibit 4.)

[6] *Florida Economic Development Program Evaluations – Year 4*, Report No. 17-02.

Exhibit 4
The Majority of Economic Incentives Are Awarded to Businesses With Over 1,000 Employees



Note: Enterprise Zone and New Markets Development Program incentives are not included.
Source: OPPAGA analysis of Department of Economic Opportunity data.

Program Funding – Other Incentive Programs

Businesses and individuals received $25.3 million in Enterprise Zone incentives during our review period. The 2015 Legislature enacted Ch. 2015-221, *Laws of Florida*, closing the Enterprise Zone Program to new applicants but temporarily preserving state incentives for businesses that are currently located within enterprise zones and have active state incentive agreements with DEO.[7] The law provided that until December 31, 2018, an eligible business could continue to apply for various enterprise zone incentives. (See Exhibit 5.) Businesses and individuals can no longer claim incentive funds.

Exhibit 5
Taxpayers Received $25.3 Million in Enterprise Zone Incentives During Our Review Period

Incentive	Taxpayers	Amount[1]
Enterprise Zone Jobs Tax Credit	247	$13,768,499
Enterprise Zone Property Tax Credit	22	6,848,720
Tax Refund for Building Materials	112	1,728,008
Tax Refund on Business Machinery and Equipment	104	2,951,937
Total	**411[2]**	**$25,297,164**

[1] Some taxpayers claimed incentive amounts against sales and use taxes in Fiscal Years 2015-16 through 2017-18, and others claimed them against corporate income taxes in calendar years 2015 through 2018.
[2] This total reflects the number of unique taxpayers (382 businesses and 29 individuals) that received a tax credit or refund; 45 businesses received both a refund and a credit.
Source: OPPAGA analysis of Department of Revenue data.

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

Investors claimed $118.7 million in New Markets Development Program Tax Credits from calendar years 2015 through 2018. This amount represents 55% of all tax credits allocated to the program.[8] According to DOR, $27.6 million in tax credits remain unclaimed for the program, which is scheduled to expire on December 31, 2022.[9] Proceeds from the sale of tax credits were used to finance $67.5 million of investment capital into 18 qualified active low-income community businesses (QALICB) during our review period.

Eligible qualified active low-income community businesses primarily received investments from community development entities (CDE) as loans, but some received an equity or debt investment into their businesses. To determine what type of investment QALICBs received from CDEs, OPPAGA reviewed annual reports filed by community development entities from Fiscal Years 2015-16 through 2017-18.[10] The majority of investments in the QALICBs were loans (13 QALICBs). For example, one QALICB received a loan of $2.4 million from a CDE on January 5, 2016, and managed to repay the loan plus interest within three years by increasing its sales volume with five new contracts. Three QALICBs received either an equity or a debt investment; one QALICB received a debt investment, a second received an equity investment, and a third received a loan and equity investment but did not provide sufficient detail in its annual reports to determine the type of investment.

Industry Analysis

The Legislature seeks to encourage growth in high-wage jobs and economic diversity by providing incentives to Qualified Target Industry (QTI) businesses. OPPAGA conducted economic analyses to assess QTIs performance in Florida and in comparison to national employment trends. The analyses use state and national employment data from 2009-2018 for six QTI sectors: Manufacturing; Wholesale Trade; Information; Finance and Insurance; Professional, Scientific, and Technical Services; and Management of Companies and Enterprises. Industry employment analyses show that some qualified target industries in Florida outperformed national levels.

Florida's QTI sector sizes are consistent with the nation's sizes, except Manufacturing is relatively smaller in Florida. The Professional, Scientific, and Technical Services sector had the highest employment within Florida, at 6.46%; this is slightly higher than the industry size at the national level (6.19%). While Manufacturing was the largest sector at the national level (8.44%), it was only 4.20% of Florida's industry employment. (See Exhibit 6.)

Exhibit 6
Employment in Most Qualified Target Industries Is Similar for Florida and the Nation

QTI Industry	Florida Employment (2018)	Florida Industry Size (2018)[1]	U.S. Industry Size (2018)[2]
Professional, Scientific, and Technical Services	571,542	6.46%	6.19%
Finance and Insurance	387,233	4.37%	4.20%
Manufacturing	371,975	4.20%	8.44%
Wholesale Trade	345,817	3.91%	3.89%
Information	139,667	1.58%	1.88%
Management of Companies and Enterprises	107,817	1.22%	1.58%

[1] These percentages show the size of an industry's employment relative to all industry employment in Florida.

[2] These percentages show the size of an industry's employment relative to all industry employment in the nation.

Source: OPPAGA analysis of Department of Economic Opportunity data.

[8] From Fiscal Year 2009-10 through Fiscal Year 2014-15, the New Markets Development Program allocated $216 million in tax credits to 18 CDEs. Prior to Fiscal Year 2013-14, DEO allocated tax credits on a first come, first served basis. In Fiscal Years 2013-14 and 2014-15, DEO allocated the same amount to each applicant. The Legislature has not authorized additional tax credits since 2014.

[9] Florida law allows a taxpayer with insufficient tax liability to carry forward unused tax credits for five years.

[10] OPPAGA surveyed QALICBs to identify a range of issues, including the current terms of investments made by CDEs and whether they would have conducted their funded project without this investment. However, the survey response rate was too low to utilize for this report; in the course of respondent follow-ups, we found that some contacts were unaware of their program participation.

From 2009 to 2018, Florida's employment grew in five of the six QTI sectors; when compared to national employment levels, only two Florida QTI sectors' employment was slightly higher. All Florida sectors experienced 20.8% employment growth during the period. Only two QTI sectors' growth—Management of Companies and Enterprises and Professional, Scientific, and Technical Services—were higher than the statewide growth rate, at 34.7% and 31.3%, respectively. (See Exhibit 7.)

Exhibit 7
Florida Employment Grew in Five of Six Qualified Target Industries

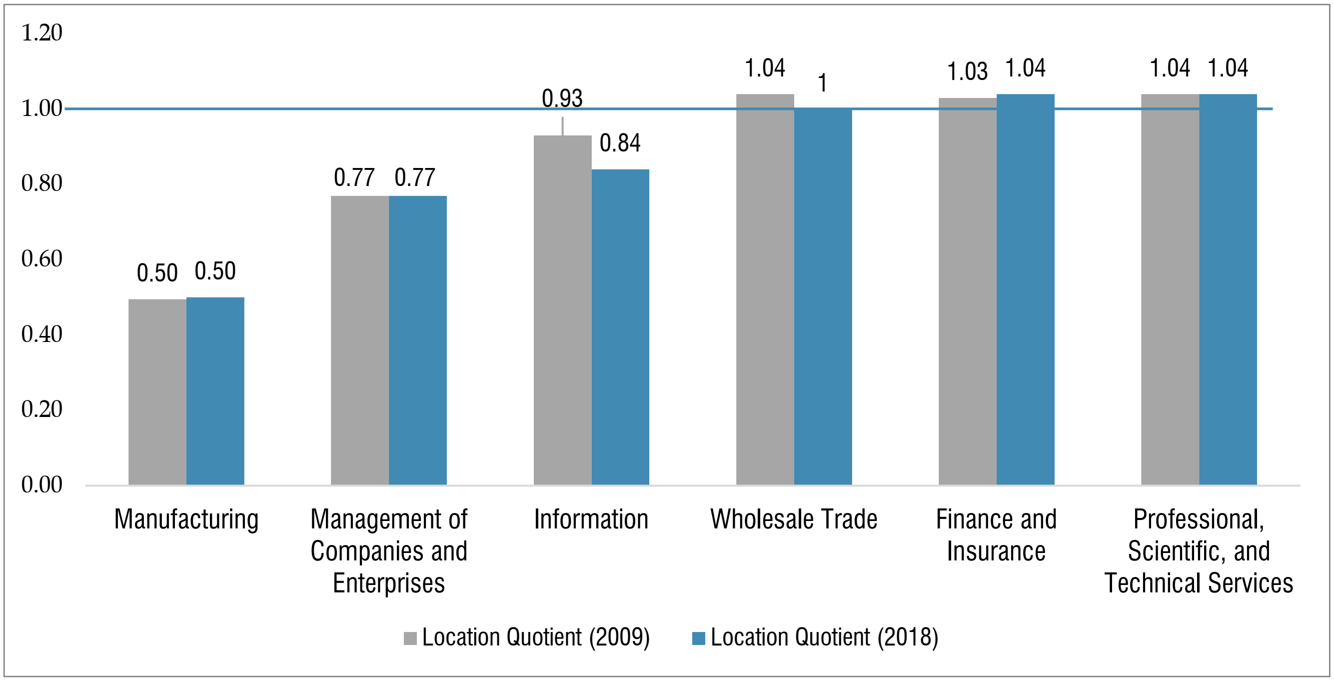
QTI Industry	Florida Employment Change (2009-2018)	Percent Change
Management of Companies and Enterprises	27,758	34.7%
Professional, Scientific, and Technical Services	136,342	31.3%
Finance and Insurance	54,558	16.4%
Manufacturing	47,742	14.7%
Wholesale Trade	28,042	8.8%
Information	-4,158	-2.9%
All Florida Industries	**1,527,008**	**20.8%**

Source: OPPAGA analysis of Department of Economic Opportunity, Bureau of Workforce Statistics and Economic Research data.

To compare Florida's employment in these six industries to the national average, we calculated location quotients. Exhibit 8 shows the location quotients for the six QTI sectors. A location quotient greater than 1.0 indicates that industry employment was higher in Florida than in the nation. Florida's employment in two of the six QTI sectors (Finance and Insurance and Professional, Scientific, and Technical Services) was slightly higher than the nation in 2018. The employment in the remaining sectors was equal to or less than the nation.

Additionally, comparing the location quotient between 2009 and 2018, only one industry (Finance and Insurance) grew slightly (0.01) in employment. The employment in the other five industry sectors either decreased or remained stagnant in Florida relative to the nation.

Exhibit 8
In 2018, Two Florida Qualified Target Industries Had Employment Levels Slightly Higher Than the National Employment Levels for Those Sectors



Source: OPPAGA analysis of Department of Economic Opportunity, Bureau of Workforce Statistics and Economic Research data.

To assess whether the employment changes were attributable to the national economy, state competitiveness, or the industry itself, we conducted a shift-share analysis. (See Appendix B for more information.) The results of our shift-share analysis show that

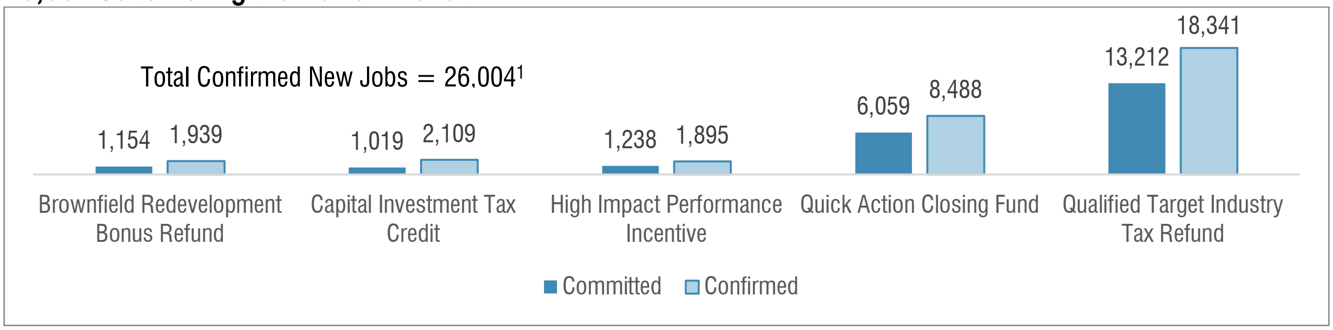
- all six industry sectors were positively impacted by growth in the national economy;
- growth in two industry sectors (Professional, Scientific, and Technical Services and Management of Companies and Enterprises) was because of overall growth in these industries; and
- five industry sectors experienced employment growth because of Florida's competitive position in these industries, and one industry (Information) underperformed.

FINDINGS

Contracted projects that received payments during the review period created 26,004 new jobs and made $1.5 billion in capital investments, exceeding performance requirements

Contracted projects that received incentive funds created 26,004 jobs during our review period. The total number of confirmed jobs exceeded the number of committed jobs for all incentive programs. Qualified Target Industry tax refund projects created the highest number of committed and confirmed jobs. The projects include jobs from projects that received a brownfield redevelopment bonus. However, DEO reported a reduction of 455 jobs for QTI projects with a brownfield redevelopment bonus. (See Exhibit 9.)[11]

Exhibit 9
Contracted Projects That Received Incentive Payments From Fiscal Years 2015-16 Through 2017-18 Created 26,004 Jobs During the Review Period[1]



[1] Projects receiving funds for multiple programs can count the same jobs across programs. This number represents an unduplicated count of confirmed jobs. Total includes projects that received a brownfield redevelopment bonus and a tax refund from the Qualified Target Industry Tax Refund Program.
Source: OPPAGA analysis of Department of Economic Opportunity data.

Many businesses that received these incentives experienced employment and wage growth. To further assess the economic growth of businesses with contracted projects, we compared the change in annual average employment and wages for Fiscal Year 2014-15 (the year before our review period) through Fiscal Year 2017-18. DEO Bureau of Workforce Statistics and Economic Research data were available for 126 unique businesses with contracted projects.[12] These businesses had 135 locations with 773,839 employees and paid total wages of about $5.8 billion in Fiscal Year 2017-18.

Our analysis found that employment increased 28% for these business locations, which was higher than the statewide growth rate for the same period. (See Exhibit 10.) However, wage growth was 5%, which is lower than statewide growth rate. Not all business locations experienced positive employment or wage growth. Specifically, 94 of 135 business locations (70%) experienced positive employment growth and 98 of the business locations (73%) experienced positive wage growth during the review period.

Exhibit 10
Businesses Receiving Incentives Experienced Increases in Employment and Wages During Our Review Period

Review Period	Business Locations[1]	Change in Annual Average Employment[2]	Change in Annual Average Wages[2]
Fiscal Years 2014-15 through 2017-18	135	28% (13,913)	5% ($4,577)
Statewide	654,825[3]	10%	9%

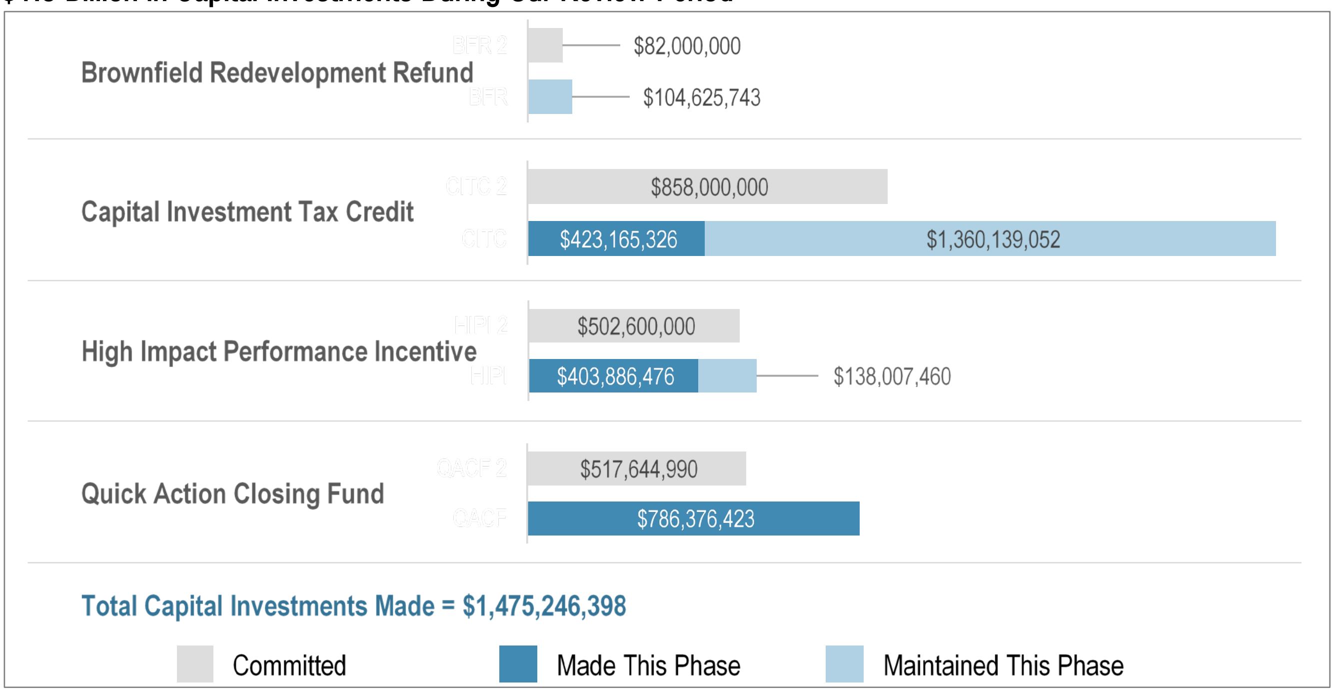
[1] Some businesses had multiple locations.
[2] OPPAGA calculated the percentage change between Fiscal Year 2017-18 and one year prior to the respective review period.
[3] This number represents the average number of total establishments in Florida in Fiscal Years 2014-15 and 2017-18.
Source: OPPAGA analysis of Department of Economic Opportunity, Bureau of Workforce Statistics and Economic Research and U.S. Department of Labor, Bureau of Labor Statistics data.

[11] DEO reports that most of these reductions were attributable to one business, which had exceeded its job performance requirement in years prior to the review period. It continued to meet its overall job performance requirement in each year of the review period.

[12] OPPAGA requested data from DEO for the 197 businesses that participated in all the reviewed incentives programs from Fiscal Years 2014-15 through 2017-18. Some businesses had several locations, each of which received incentives. DEO returned analyzable data for 163 of these businesses. Due to incorrect or incomplete data, our analysis of employment and wages was limited to 126 businesses.

Contracted projects that received incentive payments during the review period made $1.5 billion in capital investments. The total amount of confirmed capital investments ($1.5 billion) exceeded the amount of committed capital investments for all incentive programs that have such a requirement. (See Exhibit 11.) These contracted projects also maintained an additional $1.5 billion in prior capital investment in order to receive an incentive during the review period. Contractual agreements for some projects require them to maintain prior capital investment before receiving an incentive payment. For example, a business can invest capital into a building in the first or second year of the project, and DEO staff must confirm that the business maintained the investment (i.e., building) before it can receive an incentive. Capital Investment Tax Credit Program projects had a high amount of investment maintained ($1.36 billion) due to the program's structure of a 20-year timespan for claiming tax credits. Additionally, all capital investment for stand-alone Brownfield Redevelopment Bonus Program projects ($104.6 million) was maintained because these projects began prior to our review period and already made initial investments.

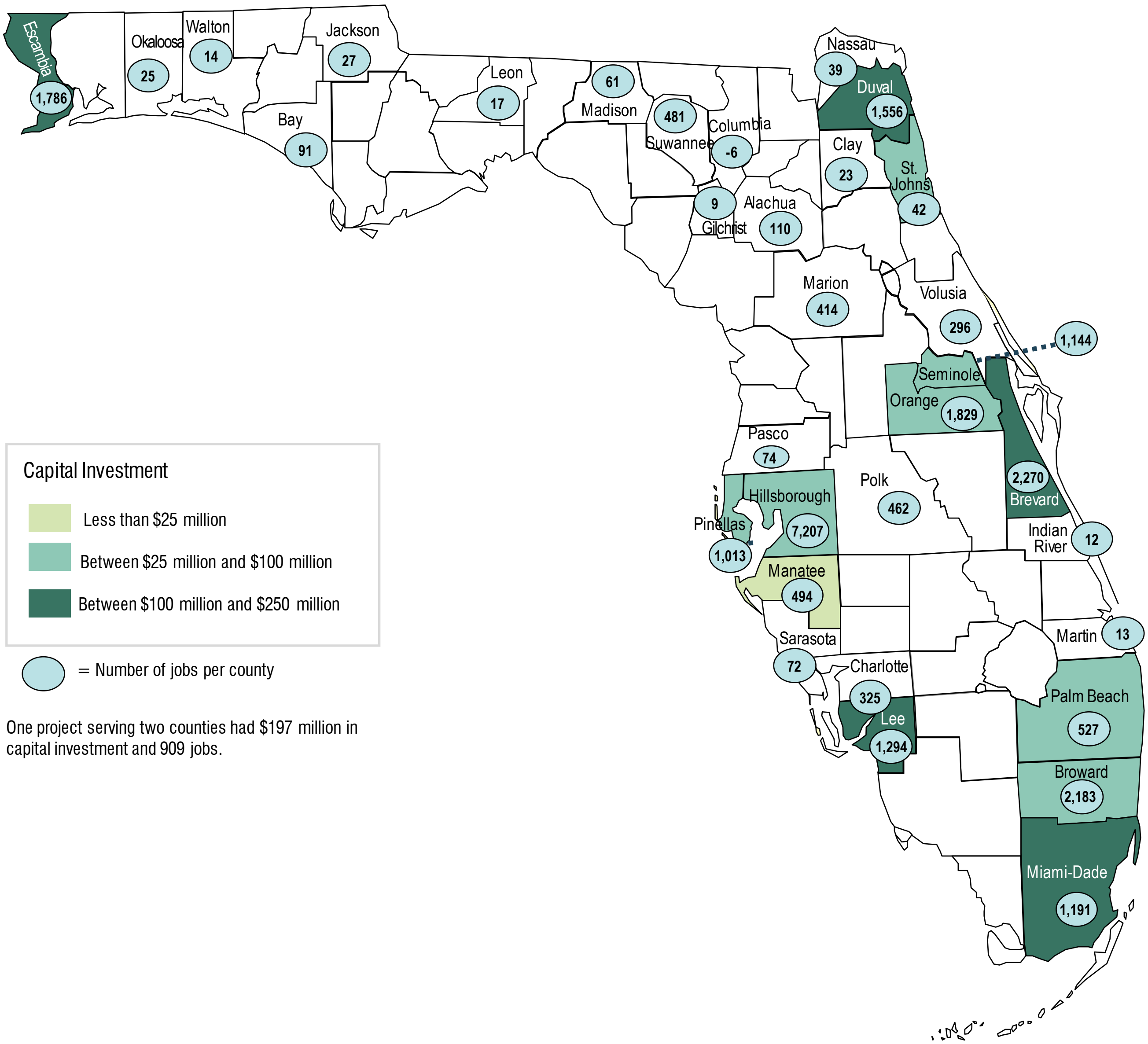
Exhibit 11
Contracted Projects That Received Incentive Payments in Fiscal Years 2015-16 Through 2017-18 Made $1.5 Billion in Capital Investments During Our Review Period[1]



[1] Projects receiving incentives from multiple programs can count the same amount of capital investment across programs. This amount represents the unduplicated amount of confirmed capital investment.
Source: OPPAGA analysis of Department of Economic Opportunity data.

There are 32 counties with confirmed new jobs and 13 counties with confirmed capital investments, with totals varying widely by county. For example, with regard to job creation, the number of confirmed new jobs ranged from 9 in Gilchrist County to 7,207 in Hillsborough County. Capital investment totals also differed greatly, with seven counties having projects that made capital investments between $25 million and $100 million. Five counties had projects that made capital investments exceeding $100 million; these counties are Brevard, Duval, Escambia, Lee, and Miami-Dade. (See Exhibit 12.)

Exhibit 12
Confirmed New Jobs and Capital Investments Varied Across Counties for Projects That Received Incentive Payments in Fiscal Years 2015-16 Through 2017-18[1]



[1] Numbers represent jobs created.
Source: OPPAGA analysis of Department of Economic Opportunity data.

Data concerns hamper assessment of New Markets Development Program performance; other information appears to show program businesses are growing at a slower rate than the statewide rate

Similar to the findings from our prior report, we determined that the Department of Economic Opportunity continues to rely on data from annual reports submitted by community development entities for performance information. However, the reported data on jobs created or retained may have accuracy problems. Specifically, DEO program staff reported that community development entities' statements about the number of jobs created is often the same across multiple years of reports. Further, CDEs are not required to provide information validating when or whether jobs are created. In addition, DEO does not currently verify jobs created, wages paid, and reports of capital investments made by program businesses. Given these reported data concerns, we conducted a review of annual reports filed by community development entities to identify qualified active low-income community businesses' plans for using the investments. In addition, we independently verified jobs and wage information using DEO employment data.

Information from annual reports and other sources suggest that program businesses are growing but less than the statewide growth rate. The review of annual reports showed that QALICBs reported using their investments in a variety of ways. The most common reported uses of the investments were to create new facilities (9 QALICBs), create new jobs (7 QALICBs), expand current facilities (6 QALICBs), and utilize as working capital (5 QALICBs). The least common uses were to increase profitability, fund product development, provide new services, and purchase new equipment.

Similar to contracted incentive projects, we also analyzed employment and wage growth for businesses that participated in the New Markets Development Program. Data were available for nine unique businesses, which had 10 locations with 7,819 employees and paid total wages of about $27 million in Fiscal Year 2017-18. DEO Bureau of Workforce Statistics and Economic Research data were available for 14 of the 18 businesses that received an investment from the New Markets Development Program during our review period. However, due to incomplete data, our employment and wage analysis was limited to nine businesses. Our analysis found that employment increased by 9% for these business locations, which was less than the statewide growth rate (10%) for the same period. These business locations also experienced wage growth of 6%, which was lower than the statewide growth rate (9%). (See Exhibit 13.)

However, not all program business locations experienced employment or wage growth. Six of the 10 business locations (60%) experienced positive employment growth during the review period. Similarly, seven of the 10 business locations (70%) experienced positive wage growth during the review period.

Exhibit 13
Businesses in the New Markets Development Program Experienced Increases in Annual Average Employment and Annual Average Wages but Less Than Statewide Growth Rate

Review Period	Business Locations	Change in Annual Average Employment[1]	Change in Annual Average Wage[1]
Fiscal Years 2014-15 through 2017-18	10	58 (9%)	$2,294 (6%)
Statewide	654,825[2]	10%	9%

[1] OPPAGA calculated the percentage change between Fiscal Year 2017-18 and one year prior to the respective review period.
[2] This number represents the average number of total establishments in Florida in Fiscal Years 2014-15 and 2017-18.
Source: OPPAGA analysis of Department of Economic Opportunity, Bureau of Workforce Statistics and Economic Research data and U.S. Department of Labor, Bureau of Labor Statistics data.

DEO reports that the incentives claims process is more timely, but opportunities for improved oversight remain for the New Markets Development Program

DEO reports improving the timeliness of incentive claims and payment processes. Our previous report found that DEO's verification and payment process was time-consuming. Specifically, we found that the average time claims submissions spent with the third-party auditor during this period was 353 days (nearly 12 months), while the average time between claims submissions and incentive payments to businesses was 489 days (more than 16 months). To improve the timeliness of the incentive claims and payment processes, we recommended that DEO provide additional education and technical assistance to businesses on the incentive application and claims submission process.

The Department of Economic Opportunity reports taking steps to improve the timeliness of the claims process. In December 2017, DEO met with representatives from its independent auditing firm and Enterprise Florida, Inc. to discuss possible improvements. The department found the submission of additional information from awardees has historically been difficult to obtain in a timely manner. Consequently, the auditor now notifies DEO if an awardee does not meet submission expectations. Additionally, DEO can then assist in contacting the business and engage EFI and local partners in taking corrective action if necessary.

DEO also found that the independent auditor's work plan had delayed the intake and start of claims reviews by several months. To address the issue, the independent auditor reworked its staffing and allocations to better support the program. As a result, DEO has completed 70% of the claims for ongoing Fiscal Year 2019-20, compared to last year's rate of 48%. The department also reduced the average number of days from submitting the claim form to sending the approval letter by 114 days from last year. Lastly, DEO has a conference call with every company following contract execution and explains the required data needed for claims processing. DEO reports reducing non-submittals from approximately 60 to 16 businesses the prior year.

DEO has not implemented recommended program changes to improve New Markets Development Program oversight. Our previous report noted steps that could improve the management of the New Markets Program. First, we noted that DEO could establish scoring criteria when allocating tax credits to community development entities. The Legislature last authorized credits to DEO in 2014 and DEO allocated them to CDEs prior to our review period. Thus, during our review period, DEO did not have tax credits to allocate using a scoring criteria and did not implement such criteria. However, if the Legislature provided additional tax credit allocations in future fiscal years, it could direct DEO to use scoring criteria. Second, we noted that DEO should improve its annual reporting criteria to adequately measure the economic impact of the program on low-income communities. These improvements could include having community development entities report actual job creation for the prior year and how investment capital was used by businesses receiving the investment. In addition, we suggested DEO could verify wages reported by community development entities using Department of Revenue tax records.

DEO reports that they did not make any program changes during our review period. The Legislature has not authorized additional New Markets Development tax credits since 2014, and DEO has not established scoring criteria for allocating any future tax credits. In terms of ongoing program management, DEO continues to rely on data from annual reports submitted by community development entities for performance information; as noted previously, these reports have accuracy issues.

CONCLUSIONS AND RECOMMENDATIONS

OPPAGA evaluated the efficiency and economic impact associated with incentives in relation to performance standards, such as new job creation and capital investment, as well as employment and job growth and overall economic growth. Evaluation of economic incentives is a key component of ensuring that the Legislature has realistic, reliable information on the effectiveness of incentives.

During this review period, DEO and its third party auditor addressed a 2017 OPPAGA recommendation on improving the timeliness of the incentive claims and payment processes. The department established expectations for timely submission of additional claims information by awardees and reduced the average number of days from claim form submittal until approval letter dissemination by 44% (114 days).

However, the majority of our prior recommendations have not been addressed. Based on our examination of Department of Economic Opportunity administration and monitoring activities, we continue to recommend 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. During our review period, two businesses participating in the program repaid incentive funds received because they did not meet performance requirements. These businesses are inactive and are ineligible to receive future program funds. Another business in the program remains active and is in a maintenance period; it has received all committed state funds and will not receive future payments. Given the limited participation, the Legislature may wish to consider phasing out the program. If the program was 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 on a first come, first served basis and then later allocated an equal number of tax credits to each eligible community development entity. In contrast, the U.S. Department of the Treasury allocates federal New Markets Tax Credits using scoring criteria with outcomes such as job creation and services to low-income communities. The Legislature may wish to consider requiring DEO to establish 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. We continue to recommend the following improvements to program oversight.

- 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.

- The Legislature could strengthen reporting criteria by requiring CDEs to provide documentation of capital investments (e.g., receipts or invoices) and report how investment capital is used by businesses receiving the investments.
- The Legislature could consider expanding statutory reporting requirements to include the social benefits or services that businesses provide to local communities.

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. The department's written response has been reproduced in Appendix C.

APPENDIX A

Economic Development Incentive Program Profiles

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.[13] 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 their employees.[14] 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, 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.

[13] Section 288.107, *F.S.*
[14] 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.

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.[15] 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 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.[16] 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.[17]

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.[18] 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.

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.[19] 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.[20] The amendment only applies to high-impact sector projects that qualify for tier 3.

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

[16] 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.

[17] For tier three 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.

[18] 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*.

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

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

ENTERPRISE ZONE PROGRAM (EZ)

Purpose. The EZ program sunset in 2018. The 1982 Legislature created the EZ Program to provide incentives to induce private investments in economically distressed areas of the state.[21] The program targeted areas that chronically display extreme and unacceptable levels of unemployment, physical deterioration, and economic disinvestment. The program had 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 provided 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 included job and corporate income tax credits as well as sales tax refunds.[22]

Counties and municipalities could have nominated an area to be designated as an enterprise zone that has high poverty (greater than 20%), high unemployment, and general distress, and met certain geographic specifications (zones may not exceed 20 square miles).[23] Rural enterprise zones are located in counties with populations that generally do not exceed 100,000.[24] Of the 65 enterprise zones within the state, 29 are rural and 36 are urban.

Local governments were responsible for zone administration and monitoring activities, creating enterprise zone development agencies, and employing zone coordinators. Zone coordinators served as local contacts and assisted businesses applying for state tax credits and refunds, certified incentive applications to the Department of Revenue, educated the public about the program, and submitted data on zone activities to the Department of Economic Opportunity (DEO) for inclusion in the enterprise zone annual report. DEO oversaw the program at the state level and approved zone designation applications and changes in zone boundaries. The department also provided technical support to local zone coordinators and submitted annual program reports to the Governor and Legislature.

History. The Legislature 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.[25] 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.[26] 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 as of December 31, 2018, but temporarily preserving state incentives for certain businesses that are currently located within enterprise zones and have active state incentive agreements with DEO.

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[21] 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.

[22] 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.

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

[24] 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.

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

[26] 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.[27] 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.

[27] 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.[28,29] 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.[30]

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 establish, at a minimum, that the jobs created by the project pay an estimated annual average wage of at least 130% of the average private sector wage.[31] 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.[32] 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.[33]

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.[34] 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.[35] 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.[36]

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 last 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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[28] Section 288.1089, *F.S.*

[29] 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.

[30] 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.

[31] 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.

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

[33] 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.

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

[35] 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.

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

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.[37] The Department of Economic Opportunity (DEO) allocates tax credits to qualified community development entities (CDEs), which 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.[38]

Taxpayers who invest in QALICBs through qualified CDEs receive tax credits equal to 39% of the total 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 their 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.[39]

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.[40] 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.[41] In each of those years, the Legislature increased the total amount of tax credits that could be awarded, as well as the maximum amount of tax credits that could be claimed for the first time in a single fiscal year. 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.[42] All other aspects of the program have remained the same since program inception. The program is scheduled to sunset in 2022.

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

[38] 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.

[39] 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.

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

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

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

QUALIFIED TARGET INDUSTRY (QTI) TAX REFUND PROGRAM

Purpose. The 1994 Legislature created the QTI tax refund program to encourage the recruitment or creation of high-paying, high-skilled jobs within specific industries.[43] 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 QTI list 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.[44,45]

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 tax refund 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 the QTI tax refund program since its inception. In 2010, the Legislature expanded the definition of jobs to allow temporary employees to qualify as full-time equivalent positions; changed the definition of a new business by removing the requirement that the business must not have existed before beginning operations in Florida; and modified the criteria and considerations that Enterprise Florida, Inc. (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.[46] 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. In 2013, the 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.[47]

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

[44] 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.

[45] 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.

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

[47] Chapter 2013-96, *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.[48] The program is also 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

- a description of the facility;
- the number of jobs to be created and the estimated average annual employee wages;
- a 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;
- a financial analysis and historical market performance of the company;
- any independent evaluations and audits of the company; and
- a 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.[49] 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.[50] 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.[51]

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. DEO has not awarded QAC funds since Fiscal Year 2015-16.

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

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

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

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

APPENDIX B

Shift-Share Analysis

OPPAGA conducted a shift-share analysis to gain a better understanding of how Florida is performing relative to the national economy and certain qualified target industry sectors. The shift-share represents how much of the employment growth or decline in a state's industry was due to the national economy, the employment trend within the particular industry, and the state characteristics that may give it a competitive advantage. Shift-share is composed of three components, with the change in employment between two years (e.g., between 2009 and 2018) equal to the sum of the components.

- *National Growth Share* is the change in employment due to the growth of the overall national economy. If the national economy is growing, then one may 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 region's characteristics (also referred to as competitive share). It is often the most important component. A positive regional shift indicates the state industry is outperforming the national trend. A negative shift indicates that the state industry is underperforming compared to the national trend.

Exhibit B-1 shows the results of our shift-share analysis for six qualified target industries for 2009 to 2018. All qualified target industries outperformed national and industry employment trends, except for information, which underperformed.

Exhibit B-1
Shift-Share Analysis for Six Qualified Target Industries

Florida Industry	Employment Change (2009-2018)	National Growth Share	Industry Mix Share	Regional Shift
Professional, Scientific, and Technical Services	136,342	58,752	41,924	35,665
Finance and Insurance	54,558	44,911	-18,146	27,793
Manufacturing	47,742	43,771	-20,748	24,718
Wholesale Trade	28,042	42,900	-23,807	8,949
Management of Companies and Enterprises	27,758	10,808	10,542	6,408
Information	-4,158	19,416	-18,164	-5,411

Source: OPPAGA analysis of Department of Economic Opportunity, Bureau of Workforce Statistics and Economic Research data.

APPENDIX C

Agency Response

Ron DeSantis
GOVERNOR

FLORIDA DEPARTMENT of ECONOMIC OPPORTUNITY

Ken Lawson
EXECUTIVE DIRECTOR

December 19, 2019

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

Dear Mr. Twogood:

Pursuant to Section 11.51(2), Florida Statutes, this letter represents our response to the preliminary report titled: ***Florida Economic Development Program Evaluations – Year 7.***

We thank you and your staff for the review of the state's incentive programs and appreciate the detailed analysis of the Tax Credit, Tax Refund, and Cash Grant incentives. Also, thank you for the opportunity to participate in the review process and for incorporating our suggestions in the final report.

If you have any questions or need additional information, please contact Mr. James E. Landsburg, Inspector General, at (850)245-7141.

Sincerely,

Ken Lawson

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www.twitter.com/FLDEO |www.facebook.com/FLDEO

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