STATE OF FLORIDA

Report No. 95-13

Office of Program Policy Analysis And Government Accountability

James L. Carpenter
Interim Director

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REVIEW OF THE ECONOMIC DEVELOPMENT TRANSPORTATION FUND PROGRAM

PURPOSE OF REVIEW

This review examines the Economic Development Transportation Fund Program, which is administered by the Florida Department of Commerce (FDOC). Our review was conducted at the request of the Joint Legislative Auditing Committee and addressed three questions:

- How has the Program been used by local governments?
- What have been the Program's economic development outcomes? and
- What policy options exist for the Program?

We limited our review to Program activities performed during fiscal years 1982-83 through 1994-95. [1]

[1] From 1980 to 1982, the Program was administered by the Florida Department of Transportation. We excluded grants made during that period from our review because Program requirements were different and information relating to these projects was limited.

BACKGROUND

The availability of transportation infrastructure is a key factor in business location decisions. For example, a company may be interested in building or expanding a factory at a site, but current roads may be inadequate to handle the traffic it will create. State concurrency requirements (s. 163.3180, F.S.) mandate that adequate transportation infrastructure must be in place or under construction within three years of issuing occupancy certificates for the new development.

The Economic Development Transportation Fund Program (s. 288.063, F.S.) was created in 1980 to help local governments (cities, counties, and special districts) resolve such problems. In this process, local governments that are working with a company interested in locating or expanding in the area may apply to FDOC for a Program grant. The application must describe the transportation problem to be addressed and certify that the problem is a "substantial impediment" to the company's expansion or location plans. Projects must be publicly-owned (e.g., improvements to public roadways are permissible; private driveways and roads are not eligible). The maximum grant award is $2 million. Local governments receiving grants are responsible for any cost overruns and for maintaining projects once completed.

Funding decisions are made by an interagency committee chaired by the Secretary of Commerce. The Committee considers such factors as the company's projected capital investment, the number of jobs to be created, the average hourly wages of these jobs, funding availability, and the county's unemployment and poverty rate. Awards are made throughout the year on a first-come, first-served basis. In fiscal year 1994-95, the Committee approved $15 million in grants for 27 projects; since 1982, FDOC has awarded $104 million in grants to 152 projects.

The Program is funded through the State Transportation Trust Fund and from interest earnings. The Program was appropriated $10 million in fiscal year 1995-96, of which $4.24 million was designated for specific projects by the General Appropriations Act. FDOC spent about $144,000 to administer the Program in fiscal year 1994-95 and had three FTEs assigned to Program activities.

FINDINGS

USE BY LOCAL GOVERNMENT

Most Counties Have Received Grants. Program grants have been awarded to 152 projects for 145 companies, located in 48 of the state's 67 counties. [2] In 30 counties one or two projects have been funded; however, five or more projects have been funded in 10 counties. FDOC staff and local government officials explained these differences in Program use by noting that some counties are more successful than others in attracting new businesses. Also, local governments in some counties may not have requested funding because they already had existing industrial parks with adequate access roads and thus may not have needed Program grants to solve business transportation problems.

Most Projects Involved Road Construction. As shown in Exhibit 1, local governments have used Program grants for a variety of transportation projects, such as widening existing roads, making intersection improvements (e.g., adding turn lanes), and extending rail lines and airport runways. The most common type of project was building or extending an access road to a company's planned site. The projects were typically located on local roads (77%) rather than state roads maintained by the Florida Department of Transportation (FDOT). In total, the projects produced at least 104 miles of roadway improvements since 1982.

Exhibit 1: Types of Projects Funded Fiscal Years 1982-83 Through 1994-95

Type of Project	Number of Projects [1]	Miles [2]
New Construction	97	55.4
Traffic Operations	46	N/A
Widening/Expansion	33	28.6
Reconstruction	13	13.0
Public Transportation	10	3.9
Resurfacing	3	3.6
Bridges	6	N/A

[1] Sums to more than 152 projects because some projects involved multiple types of work (e.g., widening an existing road plus new construction to extend the road to a company site).

[2] Project miles were not recorded for 21 projects.

Source: Florida Department of Commerce files.

Total costs for individual projects ranged from $9,500 to $19 million. Program grants, which are capped at $2 million per project, fully funded 61 of the 152 projects. Local government paid $24.2 million of the costs for the other projects, while companies receiving benefits contributed $10.2 million to the projects.

ECONOMIC DEVELOPMENT OUTCOMES

Most Projects Benefitted Manufacturing Firms. As shown in Exhibit 2, about two-thirds of the 145 companies benefitting from Program grants since 1982 were classified as manufacturing firms. FDOC staff attributed the high percentage of such firms to the Program's focus on targeting manufacturing businesses for assistance due to their job creation potential.

Exhibit 2: Types of Companies Benefitting From Program Grants Fiscal Years 1982-83 Through 1994-95

Industrial Classification	Number of Companies	Percent
Manufacturing	98	68%
Transportation/Public Works	13	9%
Wholesale Trade	9	6%
Services	8	5%
Finance/Insurance/Real Estate	7	5%
Agriculture/Forestry/Fishing	2	1%
Retail Trade	2	1%
Construction	1	1%
Mining	1	1%
Unclassified	4	3%
Total	145	100%

Source: Analysis of Florida Department of Commerce data.

Projects Benefitted Both Small and Large Companies. To determine the size of the companies aided by Program grants, we analyzed the number of employees projected for the sites after the companies' location or expansion. Data were available to make this determination for 114 of the 145 companies. Exhibit 3 shows that 19 of these companies could be classified as small businesses with under 50 employees. About two-thirds (78) of the companies planned to employ over 100 workers and some firms projected employing over 2,000 employees.

[2] A comprehensive listing of these projects, including descriptions of the work performed, the project cost and grant awards, and the county where the project was located, is available upon request and has been provided to the House and Senate Transportation Committees.

Exhibit 3: Size of Companies Benefitting From Program Grants Fiscal Years 1982-83 Through 1994-95

Number of Employees	Number of Companies	Percent
Under 50	19	17%
50 to 99	17	15%
100 to 499	48	42%
500 and Over	30	26%
Total	114	100%

Source: Analysis of Florida Department of Commerce data.

Most Recipient Companies Are Still in Business. We surveyed 100 companies that benefitted from Program grants since 1986 to determine if they were still in business as of July 1995. We were able to confirm that 87 of these companies were still in operation. Twelve of the companies had gone out of business, and we could not determine the status of the remaining company.

Most Companies Met Their Capital Investment Projections. Grant applications must identify the capital investment that companies plan to make at the site being assisted. Our survey of companies asked these firms to identify their actual site investments as of June 1995. Of the 57 companies that reported this data, most (36) had met or exceeded their projected investment levels. Individual companies had exceeded their planned investment level by up to 800%. However, 21 companies had not met their investment projections: 10 of the companies had achieved less than half of their investment projections, while the others had made at least half of the projected site investments. Overall, the 57 companies had planned to invest $487 million and reported actual site investments of $482 million, or 99% of the projected statewide amount.

Companies Frequently Did Not Meet Their Employment Projections. Local government applications must also identify the projected number of jobs to be generated as a result of the Program grant. We were able to compare these projections to Department of Labor and Employment Security data on the actual employment levels of 58 companies. These data showed that, as of March 1995, only a third (34%) of the companies had met their employment projections. As a group, the companies had planned to employ 27,953 persons but had only 19,567 employees on their March 1995 payroll (70% of the projected total). The performance rates of individual companies ranged from 0% (did not have any employees on payroll) to employing almost four times as many workers as projected. It should be noted that 14 of the companies that have not met their employment projections have also not yet completed their business expansions. These companies may be able to meet their employment projections in the future when their facility improvements are completed.

Cost Per Job Created Meets FDOC Criteria. The FDOC Awards Committee has a policy that the grant cost per job projected to be created by business assisted by Program grants should not exceed $7,500. We were able to identify the grant cost per job actually created by 56 companies. The median grant level per created job for the companies we could assess was $2,290. The per-job grant amount for individual companies varied substantially, ranging from a low of $68 to over $600,000. The grant level per actual job created was below the $7,500 level for 39 companies but exceeded this level for 17 companies. Again, however, it should be noted that some of these companies may not have completed their location and expansion activities; the grant level per job created may be lower when the companies become fully operational at the project sites.

Most Companies Received Other Incentives. In interpreting these results, it is important to note that the companies generally received other incentives, such as local tax abatements and state job training assistance, in addition to the Program grants. Over half (53%) of the 59 companies that reported this data reported that they had received other state or local government assistance. Consequently, the job creation and investment outcomes cannot be attributed solely to this Program.

POLICY OPTIONS

We reviewed literature, contacted other states that administer similar programs, and interviewed local economic development officials to identify and assess policy options that the Legislature may wish to consider. We identified four options:

- **Issuing Loans Rather Than Grants**. Some states issue economic development loans to local governments instead of grants. Repayments are put into a revolving fund and used to issue additional loans. FDOC staff and local economic development officials opposed this option. They expressed the concern that local governments would not apply for these funds because they lack the resources to repay the loan.

- **Expanding Eligible Activities**. Some states provide funds for sewer and water projects in addition to transportation improvements. Local economic development officials were divided on this option. Proponents argued that an expanded program could help the state attract more businesses by providing additional incentives. However, opponents said this change would dilute the Program's focus and could require additional funding. They also noted that local governments can fund sewer and water infrastructure from revenue bonds.
- **Eliminating the Program**. This would reduce expenditures by $10 million annually and allow FDOT to use these funds to meet other transportation needs. However, it would also abolish a state economic development incentive that helps local governments attract new businesses.
- **Changing the Funding Source**. The Program was formerly funded by general revenue instead of the State Transportation Trust Fund. Future general revenue projections do not make this option feasible. While the Program diverts funding from other FDOT activities, it does produce transportation projects that can benefit the general public as well as promote economic development.
- **Transferring the Program**. The Program could be transferred to FDOT, as the State Transportation Trust Fund is the source of Program grants. However, this could hinder FDOC's ability to package the Program with other economic development incentives and probably would not improve Program operations.

Conclusions

The Economic Development Transportation Fund provides a flexible method of helping local governments address transportation problems and attract new businesses. The Economic Development Transportation Fund appears to be reasonably effective in helping new and expanding companies resolve transportation infrastructure problems. However, its effectiveness as an economic development incentive is difficult to assess because many businesses received aid from other state and local government programs.

The Economic Development Transportation Fund is one of several incentives that Florida offers to encourage businesses to locate or expand in the state. Other incentives include the Quick Response Training Program, which subsidizes employee training for eligible businesses; the Florida Enterprise Zone Program, which provides tax incentives to businesses that locate in distressed areas in the state or hire workers from these areas; the Qualified Target Industry Program, which provides tax refunds to eligible businesses that locate or expand in Florida; and various sales tax exemptions for businesses that buy or use certain types of manufacturing equipment in the state. However, the Economic Development Transportation Fund is the only state-level incentive directly related to transportation concerns.

We recommend that the Legislature continue this Program to help resolve these transportation infrastructure problems.

Agency Response

The Secretary of the Department of Commerce agreed with our preliminary and tentative findings and recommendations. He also recommended that "the Legislature . . . establish and fund a separate Revolving Loan Fund Program to assist rural communities with other infrastructure needs which support economic development."

This review was conducted in accordance with generally accepted government auditing standards and included appropriate performance auditing and evaluation methods. Copies of this report in alternate accessible format may be obtained by contacting Report Production at (904) 488-0021 or FAX (904) 487-3804.

Review Supervised by: Wade J. Melton

Review Conducted by: Gary R. VanLandingham

November 20, 1995

Mr. James L. Carpenter
Interim Director
State of Florida Office of Program Policy
Analysis and Government Accountability
Post Office Box 1735
Tallahassee, Florida 32302

Dear Mr. Carpenter:

I am in receipt of the preliminary and tentative report on the Economic Development Transportation Fund Program prepared by the Office of Program Policy Analysis and Government Accountability (OPPAGA). The Department appreciates the opportunity to comment on the findings and conclusions of your report.

It is obvious from your review the audit team was conscientious in their efforts to present a balanced picture of the programs' outcomes. This is evidenced by the statement on page 3 "...that not all projects may have completed their expansion and location activities" recognizing that all capital investments have not been made nor have all jobs been created.

Enclosed is the agency response to your specific findings. We also offer the following in response to your overall recommendations to retain the Economic Development Transportation Fund Program:

- We agree with the recommendation that the Legislature continue this Program to help resolve transportation infrastructure barriers to economic development projects.

- We recommend the Legislature also establish and fund a separate Revolving Loan Fund Program to assist rural communities with other infrastructure needs which support economic development.

If you should have additional questions, please call Ms. Mary Helen Blakeslee or Ms. Bridget Merrill at 904/488-9357.

Sincerely,

Charles Dusseau
Secretary of Commerce

CD/ED/vg
Enclosure

Use by Local Government

Finding: Most Counties Have Received Grants. Program grants have been awarded to 152 projects for 145 companies, located in 48 of the state's 67 counties.

Comment: The Department provides information about the Economic Development Transportation Fund Program through a number of venues. This ensures that any unit of local government who may be involved in a situation for which the program may be useful has the information necessary to apply for an award successfully. For example, in addition to presentations made at state, regional and local economic development programs, targeted to economic development practitioners, the Department also participates in educational events sponsored by the Florida Association of Counties, the League of Cities and other state-wide groups.

Finding: Most Projects Involved Road Construction.

Comment: Construction of new roads or improvements (such as widening) to existing roads are by far the most common uses for funds requested by the local government applying for an award. However, the Program has also been successfully accessed by units of local government who have used the awards for specific improvements to seaport roadways, airport taxiways, publicly owned rail spurs, and the installation of traffic signals when these improvements were necessary to create or retain employment opportunities for Floridians.

Economic Development Outcomes

Finding: Most Projects Benefitted Manufacturing Firms.

Comment: Manufacturing is, and has been, the largest industrial sector targeted by the Department of Commerce and its local economic development partners in the years the Program has been available. Employment opportunities in manufacturing tend to offer relatively high skill/high wage positions and are therefore among the most desirable for Florida residents.

Finding: Projects Benefitted Both Small and Large Companies.

Comment: Over the years, the Program has been successfully accessed by large, metropolitan counties and cities as well as those located in the rural and less densely populated areas of the state. Particularly in the latter, the location or retention of relatively small businesses, even those creating less than 100 jobs, can have a major beneficial impact on the applicant's (city or county) tax base and employment picture. Also, particularly in the small, rural communities of the state, the existing transportation infrastructure (i.e., roads, signalization, etc.) is often so weak that even a relatively small business places demands on that infrastructure that require immediate attention. These demands have resulted in the awards noted in the office of Program Policy Analysis and Government Accountability's (OPPAGA) report which have benefitted small companies.

Finding: Most Recipient Companies Are Still in Business.

Comment: Although the Economic Development Transportation Fund is used to induce companies to make a favorable location decision (e.g., locate or expand in Florida), the applicant (a unit of local government) may not expend any of the Program funds until the company has begun construction of the building it intends to occupy. This requirement has, over time, tended to ensure that companies on whose behalf the applications are made are financially sound, serve large, long term and well diversified markets, and are able to raise the capital needed for their expansion.

Finding: Most Recipient Companies Met Their Capital Investment Projections.

Comment: As noted above, the Economic Development Transportation Fund Program is used to induce companies to locate a new facility, or expand existing operations in Florida. These corporate decisions almost always include a significant capital investment, by the company, in new or improved physical building facilities as well as capital equipment. The projected amount of capital investment is one of the factors taken into consideration by the Economic Development Transportation Committee in making their award recommendations.

As with any major construction effort, the time to complete such a project may exceed a single fiscal year. The Department is confident that projects for which awards were made during FY 1994/95 and FY 1993/94, most of whose construction has not yet been completed will, when complete, demonstrate the same level of performance in terms of capital investment as the cumulative effect of prior years, awards.

Finding: Companies Frequently Did Not Meet Their Employment Projections.

Comment: Thirty-six (36) projects receiving award recommendations in FY 1993/94 and FY 1994/95 have not yet completed construction of their new buildings and related facilities; therefore, to date, none of these have achieved the expected level of job creation indicated in the award applications. Further, according to Program requirements, these forecasts represent the companies' expected employment levels within two years after completion of construction. Thus, some awards may not see the full level of employment reached until FY 1996/97.

In addition, the recession experienced in FY 1991/92 and FY 1992/93 caused many companies to grow their employment less rapidly than they had anticipated when the award was made. In spite of the cyclical economic downturns experienced and the long lead times for some projects, the Economic Development Transportation Fund has facilitated the creation of more than 345,800 direct and indirect job opportunities since 1982 and the Department believes that the Program is well structured to ensure a continued high level of performance in terms of job creation.

Finding: Cost per Job Created Meets FDOC Criteria.

Comment: As part of OPPAGA's review, March 1995 employment data was used to calculate a per-job cost for 56 Economic Development Transportation Fund projects. The calculation involved the dollar amount of each award and the March 1995 employment numbers for each company on whose behalf the award was made, regardless of when (i.e., what year) the award was made. The resulting cost per job ranged from an extraordinarily low figure of $68/job for a company whose growth over time substantially exceeded expectations to a high of more than $600,000/job. The latter situation involved an, as yet, uncompleted project. At the time of the calculation, the company had only hired two employees though it expects to create 100 jobs within two years of the completion of their building. When fully operational, the cost per job for this project will be $13,000 and though higher than the Program's overall target was recommended by the Economic Development Transforation Fund Committee and approved because of the economic circumstances of the county and its residents.

Overall, as pointed out in the review, the median cost per job of the projects evaluated was $2,290/job, well below the Program's objective of $7,500/job. The Department believes that this median cost per job accurately reflects the application of consistent job creation criteria to projects being considered for funding awards.

Finding: Most Companies Received Other Incentives.

Comment: The Economic Development Transportation Fund Program is designed to be one of the tools available to economic developers in the generation and retention of employment opportunities for Floridians.