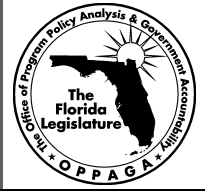




Office of Program Policy Analysis And Government Accountability



John W. Turcotte, Director

December 1998

Review of Private Sector Matching Contributions to Enterprise Florida, Inc.

Abstract

- Enterprise Florida, Inc., reported that it met statutory requirements for obtaining private sector matching contributions for Fiscal Years 1996-97 and 1997-98. However, OPPAGA concluded that some reported contributions did not fit the statutory definition of private sector matching. If the amounts we questioned were excluded, Enterprise Florida, Inc., would have failed to meet pre-conditions for receiving \$112,788 in general revenue funds for Fiscal Year 1997-98.
- Two reasons why Enterprise Florida, Inc., did not meet matching requirements are its practice of avoiding fund-raising competition with local economic development organizations and the reduction in the number of previous contributors because of mergers.
- The requirement that Enterprise Florida, Inc., increase private sector matching contributions is appropriate, but the Legislature may want to reduce specific requirements by lowering the statutory percentage of state funds to be matched.

Purpose

Florida law directs the Office of Program Policy Analysis and Government Accountability to review financial contributions made to Enterprise Florida, Inc. In this review, we assessed

- the amount and type of matching private funds contributed to Enterprise Florida, Inc.;
- the circumstances affecting the ability of Enterprise Florida, Inc., to achieve or not achieve the statutory specified amount of matching private funds; and
- whether the funding levels of matching private funds for Fiscal Year 1999-2000 and Fiscal Year 2000-2001 are appropriate.

Background

Enterprise Florida, Inc., is a public-private partnership created by the Legislature to serve as the state's principal economic development organization. A public-private partnership is an alternative to full privatization in which the private sector and government assume joint responsibility for the design and delivery of public programs and services. As a public-private partnership, Enterprise Florida, Inc., is expected to obtain private sector support to help pay for its costs of operation.

The Legislature has established expectations for private sector contributions to Enterprise Florida, Inc. The level of these required contributions increases from 10% in Fiscal Year 1996-97 to 50% in Fiscal Year 2000-01. Section 288.90151, F.S., requires the Executive Office of the Governor to place in reserve a specified percentage of general revenue funds appropriated to the Office of Tourism, Trade, and Economic Development (OTTED) for the purpose of annually contracting with Enterprise Florida, Inc. The funds placed in reserve may be released if Enterprise Florida, Inc., provides OTTED sufficient documentation that the same amount of private matching funds have been contributed. These private matching funds have to be in support of Enterprise Florida, Inc.'s economic development efforts. If Enterprise Florida, Inc., does not provide sufficient documentation by the end of the fiscal year, the funds placed in reserve are to revert to the General Revenue Fund.

Beginning in Fiscal Year 1997-98, Enterprise Florida, Inc., was required to provide 55% of its private sector matching funds in the form of cash made in response to a solicitation and used exclusively in its operations or programs. The remaining contributions may include conveyances of property or payments or distributions of property or anything of value, including in-kind contributions.

Exhibit 1 shows the amount of general revenue appropriated to OTTED for contracting with Enterprise Florida, Inc., that must be matched for Fiscal Years 1996-97 through 1998-99 and the percentage and amount of required private sector matching contributions.

In order to request the release of general revenue funds placed in reserve, Enterprise Florida, Inc., submits a report to OTTED listing cash and other contributions received for the fiscal year. OTTED staff review the report to determine whether the private sector contributions listed by Enterprise Florida, Inc., meet statutory requirements. Once OTTED staff are satisfied that the list complies with the statutory matching requirements, they forward the information to the Executive Office of the Governor's Office of Planning and Budgeting, which releases the general revenue funds held in reserve.

Exhibit 1
Private Sector Matching Requirements for Enterprise Florida, Inc., Increase Over Time

Fiscal Year	General Revenue Appropriated	Private Match Required	Total Private Match Required	Cash Match Required (55% of Total)
1996-97	\$15,534,681	10%	\$1,553,468	Not applicable ²
1997-98	8,890,114 ¹	20%	1,778,023	\$ 977,912
1998-99	7,255,254	30%	2,176,576	1,197,117
1999-00	Not applicable	40%	Not applicable	
2000-01	Not applicable	50%	Not applicable	

¹ Based on provisions in Ch. 97-278, Laws of Florida, Enterprise Florida, Inc., excluded appropriations of \$7.6 million for Innovation and Commercialization Centers, the Florida Manufacturing Technology Center, and Quick Response Training Grants from the base used to calculate the required private sector matching contributions.

² Prior to the passage of Ch. 97-278, Laws of Florida, effective July 1, 1997, Enterprise Florida, Inc., was not required to provide a specific percentage of its private matching funds in the form of cash.

Source: OPPAGA analysis of legislative appropriations, Florida Statutes, and OTTED contracts with Enterprise Florida, Inc.

Findings

Enterprise Florida, Inc., reported meeting requirements for obtaining private sector matching contributions for the past two fiscal years. However, some amounts do not meet the statutory definition of private sector matching contributions.

Enterprise Florida, Inc., reported to OTTED that it met statutory requirements for obtaining private sector matching contributions in Fiscal Years 1996-97 and 1997-98. However, we question whether some of the amounts reported by Enterprise Florida, Inc., meet the statutory definition of private sector matching contributions. If these questionable amounts were excluded, Enterprise Florida, Inc., would not meet private sector matching contribution requirements for Fiscal Year 1997-98. (See Exhibit 2.)

As shown in Exhibit 2, we question \$3.75 million of the private sector contributions reported by Enterprise Florida, Inc., for Fiscal Year 1996-97. Of the \$3.75 million, \$1.2 million represents amounts advanced by Florida financial institutions as part of a guaranty for bonds issued by Florida Development Finance Corporation (FDFC).¹ Because advanced funds will have to be repaid to the financial institutions once the bonds are paid off, the \$1.2 million does not meet the statutory definition of a contribution. We also question Enterprise Florida, Inc.'s inclusion of \$2.55 million for investments in Cypress Equity Fund made by five banks. We believe such investments should not be considered private matching contributions since they cannot be used to support Enterprise Florida, Inc.'s operations. If these amounts were excluded, Enterprise Florida, Inc., would have still met its required match based on law existing at that time.

However, we question whether Enterprise Florida, Inc., met private sector matching requirements for Fiscal Year 1997-98. As shown in Exhibit 2, OTTED adjusted Enterprise Florida's reported private sector matching funds of \$24.4 million by \$2.7 million based on a stricter interpretation of private sector cash and other matching contributions than the interpretation used by Enterprise Florida, Inc. However, OPPAGA

¹ The Florida Development Finance Corporation was created by the Legislature in 1993 (s. 288.9604, F.S.) to issue tax-exempt and taxable bonds to be sold in publicly traded markets or to large institutional investors. The bonds are to be used to make loans at competitive rates to small-sized Florida manufacturers. The corporation is under Enterprise Florida, Inc.'s Capital Development Board.

questions whether much of the remaining amount qualifies as meeting the statutory definition of private sector matching contributions. For example, the private sector cash match included \$2.4 million for investments in the Cypress Equity Fund. As noted previously, we believe such investments should not be considered private sector cash matching contributions since they cannot be used to support Enterprise Florida, Inc.'s operations.

We also question the inclusion of \$17.6 million in reported non-cash contributions for Quick Response Training. Enterprise Florida, Inc., and OTTED interpreted provisions of Ch. 97-278, Laws of Florida (effective July 1, 1997), to exclude the general revenue appropriation for Quick Response Training Program from the base used to calculate Enterprise Florida, Inc.'s level of required private sector matching contributions. However, Enterprise Florida, Inc., subsequently counted contributions for this program toward the required match. Since Enterprise Florida, Inc., did not need to obtain private sector matching contributions on the general revenue appropriation for the Quick Response Training Program, we believe it should not claim non-cash contributions for this program as part of its private sector match.

Exhibit 2 shows that if these amounts were excluded, Enterprise Florida, Inc.'s total private sector matching contributions for Fiscal Year 1997-98 would have been \$112,788 below the statutory matching requirement. However, because most of the remaining contributions were in the form of cash, Enterprise Florida, Inc., exceeded the 55% required cash match for the year.² Unmatched amounts should have reverted to the General Revenue Fund.

At the end of our fieldwork in October 1998, Enterprise Florida, Inc., had not reported its private sector matching contributions for Fiscal Year 1998-99. Therefore, the Executive Office of the Governor's Office of Planning and Budgeting had not released any of the Fiscal Year 1998-99 general revenue funds held in reserve.

² Enterprise Florida, Inc.'s financial records indicated it received private sector contributions for its operations totaling \$856,275 in Fiscal Year 1997-98, with \$853,775 in cash and \$2,500 in donated goods and services. Thus, Enterprise Florida exceeded the required 55% cash match by \$297,894. We requested Enterprise Florida, Inc., to provide us a reconciliation of the contributions included in its financial records for Fiscal Year 1996-97 and 1997-98 and the contributions it reported to OTTED for the same period. However, we had not received this reconciliation by the end of our fieldwork in October 1998.

Exhibit 2
After Adjustments, Enterprise Florida, Inc., Did Not Meet Private Sector
Matching Contribution Requirements In Fiscal Year 1997-98

	Fiscal Year 1996-97 Contributions			Fiscal Year 1997-98 Contributions		
	Cash	Other	Total	Cash	Other	Total
Amount of Contributions reported by Enterprise Florida, Inc., to OTTED	\$ 5,691,846	\$24,438,819	\$ 30,130,665	\$ 6,033,578	\$ 18,362,294	\$ 24,395,872
Less: OTTED Adjustments						
Governmental Entities				(20,645)		(20,645)
State Funds				(8,110)		(8,110)
Innovation and Commercialization Centers				(444,438)		(444,438)
Florida Manufacturing Technology Centers				(1,879,579)	(328,452)	(2,208,031)
Total Contributions per OTTED	\$5,691,846	\$24,438,819	\$ 30,130,665	\$ 3,680,806	\$ 18,033,842	\$ 21,714,648
Less: OPPAGA Adjustments						
Advances to Florida Finance Development Corporation that will need to be repaid to financial institutions	\$(1,200,000)		\$ (1,200,000)			
Investments in the Cypress Equity Fund	(2,551,124)		(2,551,124)	\$(2,405,000)		\$(2,405,000)
Quick Response Training Matching. In Fiscal Year 1997-98, general revenue appropriations for Quick Response Training was not included in the base amount against which the required match was determined					\$(17,644,413)	(17,644,413)
Total Contributions per OPPAGA	\$ 1,940,722	\$24,438,819	\$ 26,379,541	\$ 1,275,806	\$ 389,429	\$ 1,665,235
Required Contributions per appropriations and Florida Statutes	Not applicable ¹	Not applicable ¹	\$ 1,553,468	\$ 977,912	\$ 800,111	\$ 1,778,023
Contributions over/under requirements based on OPPAGA review, appropriations, and Florida Statutes	Not applicable ¹	Not applicable ¹	\$ 24,826,073	\$ 297,894	\$ (410,682)	\$ (112,788)

¹ Prior to the passage of Ch. 97-278, Laws of Florida, effective July 1, 1997, Enterprise Florida, Inc., was not required to provide a specific percentage of its private matching funds in the form of cash.

Source: OPPAGA analyses of Enterprise Florida, Inc., and OTTED records, and legislative appropriations for Fiscal Years 1996-97 and 1997-98

Enterprise Florida, Inc., managers indicated that reported matching amounts were justified contributions based on an internal policy and procedure adopted on December 5, 1997. This policy and procedure defines private sector matching contributions to include such items as the proceeds from bond offerings that we believe do not fit within the statutory definition of private contributions.

Two Factors Affect Enterprise Florida Inc.'s Ability to Meet Statutory Requirements for Private Sector Matching Contributions.

Enterprise Florida, Inc., staff identified two factors they believe impeded their efforts to solicit more private sector matching contributions.

- Enterprise Florida, Inc., has a policy of avoiding competition with local and regional economic development organizations in obtaining private sector cash contributions. This has resulted in it seeking contributions of at least \$50,000. Enterprise Florida, Inc., officials indicated that contributions of this size were made by large businesses. However, since 94% of businesses in Florida employ 100 or fewer employees, this policy limits the number of companies Enterprise Florida, Inc., can solicit for contributions.
- Several large banks and businesses that have contributed to Enterprise Florida, Inc., in the past have merged with other companies, thereby reducing the number of firms making contributions.

Enterprise Florida, Inc., Is Not Likely to Meet Statutory Private Sector Matching Contribution Requirements for Fiscal Years 1999-2000 and 2000-01.

We believe that it is unlikely that Enterprise Florida, Inc., will meet statutory requirements to increase private sector matching contributions for Fiscal Years 1999-2000 or 2000-01. It did not meet requirements for obtaining private sector matching contributions in Fiscal Year 1997-98, which had lower requirements. Further, it is impeded from obtaining more contributions by its policy to seek contributions only from large corporations so as to avoid competition with local and regional economic development organizations. While this is a reasonable policy, it reduces Enterprise Florida, Inc.'s opportunities to obtain contributions. Enterprise Florida, Inc., has not

developed new strategies that appear likely to significantly increase its private sector contributions.

Conclusions and Recommendations

It is reasonable for the Legislature to expect the private sector to provide financial support for the operation of public-private partnerships like Enterprise Florida, Inc. It is also reasonable for the Legislature to expect private sector contributions to increase over time.

Enterprise Florida, Inc., has reported that it received sufficient private sector matching contributions to meet statutory matching requirements. However, we question whether some of the amounts Enterprise Florida, Inc., reported to OTTED met the statutory definition of private sector match provided in law. If the amounts we questioned were excluded, Enterprise Florida, Inc., would have failed to meet the pre-conditions for receiving \$112,788 in general revenue funds in Fiscal Year 1997-98.

We believe it is unlikely that Enterprise Florida, Inc., will meet private matching requirements for Fiscal Years 1999-2000 and 2000-01. It did not meet matching requirements for Fiscal Year 1997-98, which had lower requirements than Fiscal Years 1999-2000 and 2000-01.

We recommend that the Legislature consider two options regarding private sector matching contributions for Enterprise Florida, Inc.

- Maintain the present statutory matching requirements. This option can be justified on the basis of the Legislature's initial expectation that the private sector should support Enterprise Florida, Inc., as a public-private partnership, and that the level of support should be expected to increase over time.
- Reduce the amount of required private sector match by amending the law to lower the percentage of state funds to be matched.

Agency Response

A written response was provided by Enterprise Florida, Inc., and has been reproduced herein beginning on page 6.

ENTERPRISE FLORIDA

Government & Business Developing Florida's Economy

December 24, 1998

Mr. John W. Turcotte, Director
Office of Program Policy Analysis and
Government Accountability
Claude Pepper Building, Room 312
111 W. Madison Street
Tallahassee, Florida

re: Review of Private Sector Matching Contributions to Enterprise Florida, Inc.

Dear Mr. Turcotte:

Enterprise Florida, Inc. (EFI) has reviewed and given serious consideration to the findings and recommendations of the subject report. While we may understand the rationale for some of the findings, we do not necessarily agree philosophically or fundamentally with the report in its entirety. More importantly however, the report brings to the forefront the fundamental argument of what can and cannot be counted as "match", the obstacles of raising private sector match and the need for resolution to these issues.

Before responding to specific findings and recommendations of the report, we would first like to provide some background on how EFI and the Office of Tourism Trade and Economic Development (OTTED) arrived at the current interpretation of eligible private sector contributions as it applies to section 288.90151, Florida Statutes. During the past two years, EFI, OTTED, and staff and members of the Senate and House met numerous times to discuss what private sector contributions EFI could claim towards meeting the general revenue match requirement. At these meetings EFI presented the various private sector contributions available or necessary for EFI's operations or programs. These contributions ranged from businesses putting their money at risk to back EFI programs to direct contributions of cash, services, or tangible goods. After much discussion and research, a consensus was reached as to what private sector contributions EFI could claim in meeting its match requirement. EFI, in its quarterly and annual reports on private sector contributions to OTTED and the Legislature, disclosed all private sector contributions, with the expectation that only those agreed upon would be counted towards the match requirement. Furthermore, extensive details and documentation of such contributions were included with each report.

We would also like to take this opportunity to comment on specific recommendations and findings of the report as follows:

1) Page 1 and 2 of the reports discusses the release of the general revenue match to EFI. However, it is incomplete as it implies that only OTTED and the Office of Planning and Budgeting (OPB) review and approve documentation for the release of general revenue matching funds to EFI. Per section 288.90511, Florida Statutes, for EFI to receive the reserved general revenue match, the budget amendment process prescribed in Chapter 216, Florida Statutes must be followed. This process includes not only a review by OTTED and OPB, but a 14-day consultation period in which the Senate and House Appropriations staff must review and approve the budget amendment for the release of funds. The last step of the process includes the Comptroller's release of the actual funds to EFI.

2) Based on OPPAGA's interpretation of allowable private sector match contributions in the report, EFI fell short of its fiscal year 1997-98 match requirement by \$112,788. The OPPAGA argument for EFI's shortfall is based on three issues: (1) advances to Florida Finance Development Corporation will need to be repaid; (2) financial institutions investments into the Cypress Equity Fund are not for EFI operations; and (3) \$4 million in general revenue for Quick Response Grants was not included in the base on which the 20 percent match was calculated.

Mr. John Turcotte
December 24, 1998
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While the rationale for this finding may be reasonable, we do not agree based mainly on the fact that consensus was reached on allowable match as discussed above. Specifically, EFI does not concur as follows:

Quick Response Grants - \$4 million. EFI would have exceeded the \$1.1 million of in-kind match even if the \$4 million for Quick Response Grants had been included in the 20 percent match calculation.

Advances to Florida Finance Development Corporation. The report argues that once bonds are paid off, the funds that financial investors advanced for the bonds must be repaid and therefore should not be considered allowable match. While it is true that advances are repaid once the bonds are paid off, it must be duly noted that these private sector funds are at risk while they are working for the State's economic development well being. The financial investors have made serious financial contributions and without them the program would not be available unless the State wishes to advance the funds for the program. We therefore feel that repayment of the investors advance is immaterial when considering the benefits reaped by the State of Florida and businesses while using these "advanced" funds.

Investments in the Cypress Equity Fund. OPPAGA's foundation for not allowing investments in the Cypress Equity Fund is that the funds cannot be used to support EFI's operations. However, Section 288.90511(3) states that matching private funds shall be used for EFI's *operations or programs*. Cypress Equity Fund is a program of EFI's Capital Development affiliate and therefore should be counted as cash match. Without these private sector investments, a valuable EFI *program* would not be available to businesses.

(3) The report also concludes that based on current law and OPPAGA's interpretation of allowable match that it is unlikely that EFI will meet private sector matching requirements in the future. This conclusion further begs for clarification or a revisit of the current law to examine allowable match. EFI can not easily respond to this statement without clarification of what is allowable match or the amount that it is required to match.

In summation, EFI believes that private businesses are contributing in many ways that are not being reflected under the current definition of allowable match. We would, therefore, like to offer a recommendation not considered in the QPPAGA report. To better reflect the broad and varied support of Florida's business community, we recommend that the match definition be expanded to better reflect this support.

Thank you for the opportunity to comment and respond on the report findings.

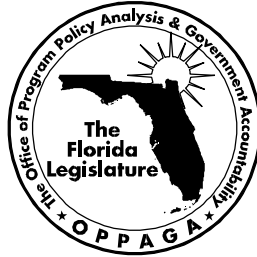
Sincerely,

Martha Larson
Senior Vice President of Administration
and Strategic Planning

:stk

The Florida Legislature

Office of Program Policy Analysis and Government Accountability



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