A CATALYST FOR GROWTH

AN ANALYSIS OF FLORIDA'S ECONOMIC DEVELOPMENT INCENTIVE PROGRAMS

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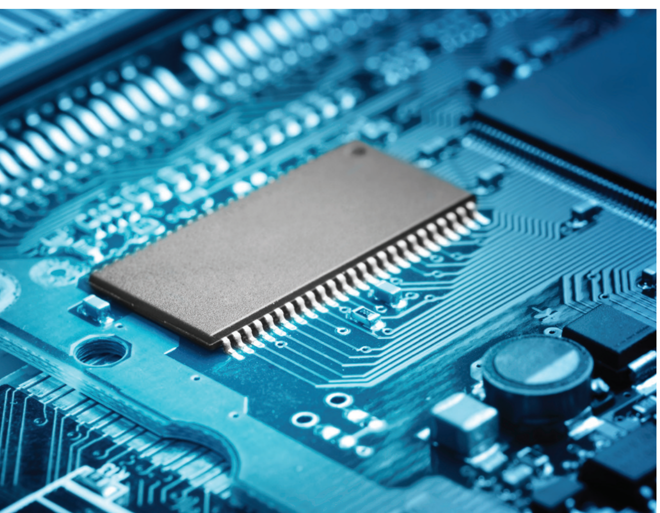
Florida TaxWatch



Florida TaxWatch

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Dear Fellow Taxpayer,

While Florida TaxWatch research focuses on a wide variety of topics that impact the everyday lives of Florida residents, perhaps the most consistent focus over the past three decades has been on economic development.

Florida, like all states, has put in place a number of programs that provide an incentive to a company looking to relocate to the state, or expand within it. These programs are often the subject of ideological debate among policymakers and those looking to influence the legislative process, and it is vital that the public understand how effective these programs are, and what other states are doing that may put Florida at a disadvantage.

Florida TaxWatch took on this project in order to review the state's economic development incentive programs, examine the return-on-investment figures published by the state, and compare Florida's programs to those of competitor states. Florida's business-friendly tax climate has its advantages, but this review finds that there are areas within which the state can improve relative to its competitors.

It is our hope that the information contained in this report will be helpful to policymakers looking to make educated decisions on behalf of the taxpayers, and to the taxpayers looking to learn more about where their hard-earned tax dollars are spent.

Sincerely,

Dominic M. Calabro

Dominic M. Calabro
President & CEO

INTRODUCTION

Florida is home to one of the most robust and expanding economies in the United States.[1] In fact, with a GDP that is larger than most countries (17th largest in the world),[2] Florida is a global economic power, and to increase our standing, it is crucial that the state is able to successfully attract new and expanding businesses.

When businesses decide where to relocate or expand, many factors can tip the scales in one direction or the other. Created as a way to encourage investment by offsetting taxes, fees, or other costs, economic development incentives can make a significant difference for a new or expanding business considering a change. Every state offers some kind of incentives to businesses, generally using reductions in taxes, loans from the state, or grants to make their state the best option for specific companies or industries.

The competition among states in attracting businesses is fierce, because convincing a large company to relocate or build an office, manufacturing plant, etc., in a state can lead to tens of thousands of jobs, and billions of dollars in capital flowing through that state's economy.

As technology has given businesses the ability to invest almost anywhere, the use of economic development incentives has grown significantly, creating a bit of an arms race between states competing for job creation and economic development. While these benefits are seen by critics as a "handout" to business, a state attempting to compete in the modern economy without using at least some incentives would be akin to a college in a major athletic conference attempting to field competitive teams without offering the scholarships available to them.

It would be naïve to believe that a state could successfully implement a robust economic development strategy without offering appropriate companies an environment within which they could flourish, create new jobs, and provide a positive economic impact. Incentives are, and must be seen as, simply one tool in the economic development arsenal of a state government, but the impact of this one tool can have long-lasting effects. Economic development incentives are not a substitute for the fundamentals of good economic growth, like a good tax structure and a well-trained workforce, but they cannot be ignored as a part of the overall strategy for economic development.

Currently, Florida offers numerous economic development incentives that are catered to a variety of economic sectors, but support amongst policymakers may be waning. For FY2015-16, the total amount of money available in the state's economic development incentives "toolkit"[3] (includes the Quick Action Closing Fund, Qualified Targeted Industry Business Tax Refund, Brownfield Redevelopment Tax Refund, High-Impact Business Performance Grant,

1 Florida TaxWatch. *2016 Economic Preview.* January 2016

2 Newsweek Magazine. *If New York is Spain and California Brazil, What Is Texas?* June 22, 2015.

3 As defined by the 2015 General Appropriations Act.

Qualified Defense Contractor and Space Flight Business Tax Refund,[4] and Innovation Incentive Fund Grant) is $43 million, a $28 million reduction from the previous fiscal year.[5] While some programs have been more successful than others, some are having a very positive impact on Florida's economy.

To determine the best path forward, it is prudent to measure these tools against other states. In doing so, one can gain an understanding of the overall success of the strategy, and possibly gain insight on how to improve upon the economic development incentives the state currently offers.

PURPOSE

This report looks at a number of incentives offered in Florida, examines the respective return-on-investment of each, and draws conclusions about how Florida's incentives stack up against competitor states.

TYPES OF INCENTIVES

Economic development incentives can generally be classified as either tax-based or cash-based. Tax-based incentives include tax exemptions, which allow companies to avoid paying taxes on certain items; tax credits, which allow companies to reduce their taxes due by a specified amount at the time of payment; and tax refunds, which remit a portion of taxes paid back to the business.

Cash-based incentives include grants and loans for various purposes. Cash grants are sums of money, not to be repaid, awarded to qualified businesses by state and local governments. Grants vary in terms of size, qualifications, purpose, frequency of offering, etc. Within this category are deal-closing funds, strategic tools set up as discretionary cash pools to help governments "seal the deal" in critical and time-sensitive economic development negotiations. Essentially, deal-closing funds allow the state to cut a check to a business in exchange for meeting job-creation or other investment goals.

Economic development loans typically come at a lower interest rate than would be otherwise available to a business, and have a variety of specific repayment options, depending on the program. Among the different options for a business, loan guarantees are promises by the state to assume the debt of a borrower if they should default on a loan, allowing businesses to invest with less risk.

4 Qualified Defense Contractor and Space Flight Business Tax Refund was not renewed by the 2015 Legislature. Existing contracts are still in effect, which is why the program is included in the budget.

5 Florida TaxWatch. *The Taxpayer's Pocket Guide to Florida's FY2015-16 State Budget.* August 2015.

THE VALUE OF INCENTIVES

While every state utilizes economic development incentives, and shows clear benefits as a result of targeted programs, critics maintain that incentives are "corporate welfare" handouts, the government is choosing winners and losers, and incentives are a poor substitute for true tax reform. Proponents maintain that economic development incentives are beneficial to taxpayers, and a necessary tool for a number of reasons:

The return on investment can be significant, providing the taxpayers with revenue more than six times their initial investment in a project for certain programs;

Because Florida's economic development incentives are targeted to specific industries and investments, qualifying businesses bring high-wage jobs to the state, help revitalize areas hurt by economic or budgetary changes, and help diversify the state's industry portfolio, protecting Florida's economy from major fluctuations associated with relying on a small number of dominant sectors;

Enabling the exponential growth of an industry within a state has immense potential. In the past seven years, Georgia has seen its film and television industry explode into a national leader, bringing approximately $6 billion into the state's economy through the use of a robust, targeted incentive package; and

The widespread use of competitive economic development incentives by other states virtually requires Florida to keep pace in order to be a viable option for large and innovative companies looking to relocate or expand in the nation's highly adaptable economy.

THE EFFICACY OF FLORIDA'S ECONOMIC DEVELOPMENT INCENTIVES

Since 2013, Florida law has required the Florida Legislature's Office of Economic and Demographic Research (EDR) and Office of Program Policy Analysis and Government Accountability (OPPAGA) to annually provide a detailed analysis of state economic development programs (with economic benefits to be estimated every three years).[6] The EDR defines economic benefits as the gains in state revenues as a percentage of the state's investment, and considers the term "Return on Investment" (ROI) as being synonymous with economic benefits.[7]

6 Florida Economic Development Program Evaluations – *Year 1, Joint report by the Office of Program Policy Analysis and Government Accountability and the Office of Economic and Demographic Research.* Jan. 1, 2014

7 Office of Economic and Demographic Research. *Return-on-Investment for Select State Economic Development Incentive Programs.* January 20, 2015.

The EDR uses the following formula to calculate ROI:[8]

$$\frac{\text{(Increase in State Revenue – State Investment)}}{\text{State Investment}}$$

ROI is therefore a ratio of a government program's receipts divided by the cost to the state from funding that program. This straightforward approach is vital, because ROI is a measure that is intended to enable wide-ranging comparisons between projects.[9]

Despite the benefits of this approach, it is important to remember that ROI is not the only way to assess the efficacy of incentive programs. While some provide simple calculations based on the number of jobs created or new tax revenue collected, some programs are focused on the redevelopment of distressed areas, where a handful of new jobs would make a significant difference to the community, and could help bring more strength to that area.[10] The ROI for such a program may not be significant but, over time, the impact on that distressed area could be substantial, lowering crime rates, increasing employment, and providing much-needed services to residents that struggle without them. The impact of programs on the state's competitiveness and overall quality of life are also not captured in a simple revenue calculation.

OVERVIEW OF FLORIDA'S ECONOMIC DEVELOPMENT INCENTIVES

Florida's economic development "toolkit" includes the following active programs:

Quick Action Closing Fund (QACF)

The QACF is a discretionary "deal-closing" fund providing cash grants to companies after they have made substantial capital investment toward tangible personal property tied to a specific economic development project. QACF recipients are required to create a specific number of new jobs and make a specified minimum capital investment in order to receive the grant funds or to avoid sanctions after receiving the funds. OPPAGA found that projects receiving QACF incentives in fiscal years 2009-10 through 2011-12 created 5,829 jobs and made more than $555 million in capital investments.[11] This represents 62 percent of the required jobs and 57 percent of the required capital investment.

8 Office of Economic and Demographic Research, "Return-on-Investment for International Trade and Business Development Programs," December, 2015.

9 ROIs greater than 1.0 indicate the program more than breaks even, a positive return; equal to 1.0 indicates the program just breaks even; less than 1.0 but greater than zero indicates the program fails to break even but recovers a portion of its cost; and less than zero indicates the program does not recover any portion of its costs.

10 Florida TaxWatch. *Improving the Value of Florida's Enterprise Zone Program for Taxpayers.* February 2015.

11 Office of Program Policy Analysis & Government Accountability, "Florida Economic Development Program Evaluations – Year 1," Report No. 14-01, January 1, 2014.

Since 37 of the 41 projects are still active, the recipients have time before their negotiated due dates to create the balance of the new jobs and make the required capital investment. EDR calculated the ROI for the QACF to be 1.1 for bundled projects and 6.1 for single projects.[12]

Qualified Target Industry Business Tax Refund (QTI)

This incentive provides refunds on corporate income, sales, ad valorem, intangible personal property, insurance premium, and other taxes to companies that create high-wage jobs in targeted high value-added industries such as information technology, life sciences, and emerging technologies. QTI recipients are required to create a specified number of jobs that pay annual wages that are at least 115 percent of the average private sector wage. OPPAGA found that QTI recipients in fiscal years 2009-10 through 2011-12 created 37,103 jobs, which is 26.8 percent more than the required number.[13] One of the state's most successful programs, EDR calculated the ROI for QTI recipients to be 6.9 for bundled projects and 6.8 for single projects.[14]

Brownfield Redevelopment Bonus Refund

This incentive is used in urban areas to help incentivize economic development, and have seen significant positive returns on investment. The program provides refunds equal to 20 percent of the average annual wage of new jobs created in a brownfield area up to a maximum of $2,500 per new job on the same taxes that apply to QTI. Recipients are required to create at least 10 permanent full-time jobs and demonstrate a specified fixed capital investment on mixed-use business activities. OPPAGA found that recipients of this incentive in fiscal years 2009-10 through 2011-12 created 1,328 jobs, which is 95.8 percent of the required number.[15] The recipients' capital investment of $86.2 million is almost five times the required amount.[16] EDR calculated the ROI for Brownfield Redevelopment Bonus Refund to be 4.0.[17]

12 Office of Economic & Demographic Research, "Return-on-Investment for Select State Economic Development Incentive Programs," January 1, 2014.

13 Office of Program Policy Analysis & Government Accountability, "Florida Economic Development Program Evaluations – Year 1," Report No. 14-01, January 1, 2014.

14 Office of Economic & Demographic Research, "Return-on-Investment for Select State Economic Development Incentive Programs," January 1, 2014.

15 Office of Program Policy Analysis & Government Accountability, "Florida Economic Development Program Evaluations – Year 1," Report No. 14-01, January 1, 2014.

16 Ibid.

17 Office of Economic & Demographic Research, "Return-on-Investment for Select State Economic Development Incentive Programs," January 1, 2014.

High Impact Performance Incentive (HIPI)

This incentive provides negotiated grants to attract and grow firms in designated high-impact portions of the following sectors: clean energy, corporate headquarters, financial services, life sciences, semiconductors, and transportation equipment manufacturing.[18] HIPI recipients are required to create a specific number of new jobs and make a specified minimum capital investment in order to receive the grants. OPPAGA found that projects receiving HIPI grant incentives in fiscal years 2009-10 through 2011-12 created 21 jobs and made more than $14.0 million in capital investments.[19] This represents 32 percent of the required jobs and almost 26 percent of the required capital investment. Since these are still active projects, the recipients have time before their negotiated due dates to receive the balance of the HIPI grants. EDR calculated the ROI for HIPI grant recipients to be 2.3 for bundled projects and 1.9 for single projects.[20]

Innovation Incentive Fund (IIF)

This incentive provides cash grants to firms locating to or expanding in Florida that are promising candidates to be catalysts for growth in emerging technology clusters or otherwise drive growth in an approved region. IIF recipients are required to create a specified number of jobs that pay annual wages that are at least 130 percent of the average private sector wage, and some require a certain level of capital investment. OPPAGA found that projects receiving IIF incentives in fiscal years 2009-10 through 2011-12 created 857 jobs and made more than $64 million in capital investments.[21] This represents 48 percent of the required jobs and 61 percent of the required equipment investment. Since these are still active projects, the recipients have time before their negotiated due dates to create the balance of jobs and make the rest of the required equipment investment; however, EDR calculated the ROI for IIF recipients to be 0.2 for bundled and 0.1 for single projects.[22]

Florida also maintains a large number of other incentive programs or tax abatements for qualifying businesses. Some of the more well-known include:

Capital Investment Tax Credit (CITC)

This incentive provides an annual credit against the state's corporate income tax to companies carrying out capital investment in high-impact (capital-intensive) sectors in

18 Enterprise Florida. Business Climate Incentives. www.enterpriseflorida.com/why-florida/business-climate/incentives/ Accessed February 2, 2016.

19 Office of Program Policy Analysis & Government Accountability, "Florida Economic Development Program Evaluations – Year 1," Report No. 14-01, January 1, 2014.

20 Office of Economic & Demographic Research, "Return-on-Investment for Select State Economic Development Incentive Programs," January 1, 2014.

21 Office of Program Policy Analysis & Government Accountability, "Florida Economic Development Program Evaluations – Year 1," Report No. 14-01, January 1, 2014.

22 Office of Economic & Demographic Research, "Return-on-Investment for Select State Economic Development Incentive Programs," January 1, 2014.

Florida. CITC recipients are required to create a specific number of new jobs and make a specified minimum capital investment in order to receive the tax credits. OPPAGA found that projects receiving CITC incentives in fiscal years 2009-10 through 2011-12 created 2,717 jobs and made more than $1.3 billion in capital investments.[23] This represents 91 percent of the required jobs and almost three times the required capital investment. Since these are still active projects, the recipients have time before their negotiated due dates to create the remaining jobs. EDR calculated the ROI for CITC recipients to be 2.3 for bundled projects (those that receive awards from multiple programs) and 1.9 for single projects (those that receive an award from only one program).[24]

Sales Tax Exemption for Purchases of Industrial Machinery and Equipment

These incentives provide Florida companies purchasing industrial machinery and equipment with a full exemption from sales and use taxes. Designed to further encourage investment in Florida manufacturing, the broadest exemption provision in this category was passed in 2014 and is scheduled to sunset in 2017.[25] Likely due to its infancy and projected expiration, neither OPPAGA nor EDR has evaluated this program, but a recent Florida TaxWatch study showed that the program has been successful in its goal of incentivizing new investment, and recommended that the program be made permanent.[26]

Entertainment Industry (Film in Florida Sales Tax Exemption)

This incentive provides a full sales tax exemption on the purchase of certain equipment used in the production of motion pictures, television productions, commercial advertising, and music video or sound recordings. OPPAGA estimated that qualified production companies could have approximately $250 million in tax-exempt purchases per year in Fiscal Years 2010-11 through 2012-13, resulting in annual tax exemption amounts of approximately $15 million.[27] EDR calculated the ROI to be 0.54.[28]

Semi-Conductor Defense and Space Technology Tax Exemption

This incentive provides Florida businesses in semiconductor production for defense and space technology a full sales tax exemption on the purchase of machinery and equipment for two years. The newly created International Consortium of Advanced Manufacturing and

23 Office of Program Policy Analysis & Government Accountability. *Florida Economic Development Program Evaluations – Year 1. Report No. 14-01.* January 1, 2014.

24 Office of Economic & Demographic Research. *Return-on-Investment for Select State Economic Development Incentive Programs.* January 1, 2014.

25 Statute is outlined at the Florida Department of Revenue Website: dor.myflorida.com/dor/tips/tip13a01-06.html

26 Florida TaxWatch. *Extending the Manufacturing Machinery & Equipment Sales Tax Exemption.* November 2015.

27 Office of Program Policy Analysis & Government Accountability. *Florida Economic Development Program Evaluations – Year 2, Report No. 15-01.* January 1, 2015.

28 Office of Economic & Demographic Research. *Return on Investment for the Entertainment Industry Incentive Programs.* January 2015.

Research, the subject of multiple Florida TaxWatch reports,[29] is a recipient of this program, and has the potential to make Florida a national hub for high-tech manufacturing. Incentive recipients reported $298 million in tax-exempted purchases and $3 billion in new capital investments in machinery and equipment for calendar years 2011 through 2014.[30] Estimates of the ROI for this program are expected in early 2016, and had not been released at the time of publication of this report.

Entertainment Industry Incentive

This incentive provides tax credits for certified film and entertainment production in Florida. These are available on a first-come, first-served basis. The Legislature allocated $296 million for film and entertainment tax credits from fiscal years 2009-10 through 2011-12, all of which has been committed to 351 projects.[31] EDR calculated the ROI for tax credit recipients based upon two scenarios, with ROIs ranging from 0.25 to 0.43, showing that the program did not result in state revenue above the cost of the incentives provided in either case.[32]

New Markets Development Program

This incentive provides tax credits to businesses making investments to create and retain jobs in specific rural and urban low-income communities. Recipients make qualified investments into federally registered Community Development Entities which in turn make investments in qualified low income community businesses.[33] Since inception in 2009, over $216 million in tax credits have been allocated and awarded.[34] The evaluation of this program is due by January 1, 2017.

Rural Community Development Revolving Loan Program

This incentive provides loans, loan guarantees, and loan loss reserves to rural local governments and associated development organizations to promote rural community economic development. Neither OPPAGA nor EDR is directed by statute to evaluate this program.

Brownfield Program Incentives

In addition to the Brownfield Bonus Refund, other brownfield programs include low interest loans for assessment and clean-up, partial loan guarantees, voluntary cleanup tax credits,

29 Florida TaxWatch. *Could Florida Be The Next High-Tech Hub?* May 2015; and *Building Florida's High-Tech Manufacturing Sector*. February 2016.

30 Office of Program Policy Analysis & Government Accountability. *Florida Economic Development Program Evaluations – Year 3, Report No. 15-11.* November 2015.

31 Office of Program Policy Analysis & Government Accountability. *Florida Economic Development Program Evaluations – Year 2, Report No. 15-01.* January 1, 2015.

32 Office of Economic & Demographic Research. *Return-on-Investment for the Entertainment Industry Incentive Programs.* January 2015.

33 Florida Department of Economic Opportunity. *2014 Annual Incentives Report.* December 2014.

34 Florida Department of Economic Opportunity. *2014-15 Annual Report.*

cleanup liability protection, and other ancillary incentives. Neither OPPAGA nor EDR is directed by statute to evaluate this program.

Florida Sports Related Programs

These programs provide a variety of incentives to encourage economic development by supporting various sports-related activities.[35] OPPAGA reported that although participation in amateur sports has increased and spring training attendance has remained relatively constant, attendance for the state's professional teams tends to be less than that of teams in other states. The EDR projected the following ROIs for sports-related incentives:

- Florida Sports Foundation Grants 5.61
- Professional Sports Facilities Incentive Program 0.30
- Spring Training Franchise Incentive Program 0.11[36]

Economic Development Transportation Fund (the "Road Fund")

This incentive provides grants to local governments to fund transportation-related projects that are specifically linked to a company's location or expansion decision. Neither OPPAGA nor EDR is directed by statute to evaluate this program.

Florida Flex (Formerly known as Quick Response Training Program or "QRT")

This incentive offers grants to partially reimburse relocating or expanding businesses for training costs already incurred for workers placed in new jobs. OPPAGA reported that QRT grant recipients trained 21,314 workers from Fiscal Year 2011-12 through Fiscal Year 2013-14, and that receiving training through a QRT grant had a significant, consistently positive effect on wages. The average QRT grant award per company was $289,543 and the average number of employees trained per company was 220.[37] Estimates of the ROI for this program are expected in early 2016, and had not been released at the time of publication of this report.

Incumbent Worker Training Program (IWT)

This incentive provides grants to partially reimburse existing for-profit firms for expenses incurred in training to upgrade workers' skills. OPPAGA reported that IWT grant recipients trained 24,268 workers from Fiscal Year 2011-12 through Fiscal Year 2013-14, and that there were no consistent effects on wages. The average IWT grant award per company was

35 In 2014 the Florida Legislature created the Sports Development Program which is overseen by the Florida Sports Foundation and the Florida DEO. 2015 OPPAGA Economic Development Program Evaluations .

36 Office of Economic & Demographic Research. *Return on Investment for the Florida Sports Foundation Grants and Related Programs.* January 6, 2015.

37 Office of Program Policy Analysis & Government Accountability. *Florida Economic Development Program Evaluations – Year 3, Report No. 15-11.* November 2015.

$14,483 and the average number of employees trained per company was 38.[38] Estimates of the ROI for this program are expected in early 2016, and had not been released at the time of publication of this report.

Analyzing Florida's Economic Development Incentives

Clearly, Florida has a diversified collection of economic development incentives, and the most successful ones, based upon the evaluations conducted by OPPAGA and EDR, are those that offer tax refunds. Every $1 invested in the Qualified Targeted Industries (QTI) tax refund incentive generates almost $7 in state revenue. QTI recipients have created 26 percent more jobs than they are contractually obligated to create, making QTI one of Florida's most successful economic development incentives. The Brownfield Redevelopment Bonus Refund is another successful tax refund incentive. With time still remaining to produce the required jobs and investments, recipients of this refund have created nearly 96 percent of the required number of jobs, with capital investments that are almost five times the required investment amount. Every $1 invested in this refund incentive generates $4 in return.

Among the cash grants incentives, the Quick Action Closing Fund (QACF) has demonstrated the greatest success. QACF recipients have created 62 percent of the required number of jobs, with capital investments that are 57 percent of the required investment amount. Since many of these awards are still active, the recipients have time before their negotiated due dates to create the balance of the new jobs and make the required capital investment. Every $1 invested in this incentive generates $1.10 (bundled projects) to $6.10 (single projects) in state revenue.

Among the tax credit incentives, the Corporate Income Tax Credit (CITC) has demonstrated the greatest success. CITC recipients have created 91 percent of the required number of jobs, with capital investments that are almost three times the required investment amount.

Since many of these awards are still active, there is reason to believe these numbers will improve. Every $1 invested in this incentive generates $1.90 (single project) to $2.30 (bundled projects) in state revenue.

Low returns on investment and the absence of information about performance warrant closer examination of other incentives. The Innovation Incentive Fund grant (part of the state's "toolkit") is an important incentive because of the nature of the business it attracts (emerging technology clusters) and the wages paid for the jobs that are created (130 percent of the average private sector wage). Yet, every $1 invested in this incentive generates only $0.10 to $0.20 in state revenue. The Entertainment and Film Sales Tax Exemption ($0.54) and the Entertainment Industry Tax Credit Incentive ($0.25 - $0.43) both have low returns on investment for the state as well.

38 Office of Program Policy Analysis & Government Accountability. *Florida Economic Development Program Evaluations – Year 3, Report No. 15-11.* November 2015.

Additionally, with the exception of Florida Sports Foundation Grants, the sports-related incentives programs underperform, according to EDR and OPPAGA. The Professional Sports Facilities Incentive Program (0.30) and the Spring Training Franchise Incentive Program (0.11) have low returns on investment.

For some incentives programs, such as those that provide loans, loan guarantees, and job training assistance, there is little information available upon which to evaluate their overall effectiveness.

Overall, Florida's economic development incentives "toolkit" programs show a positive return on investment for the taxpayers, and when combined with other programs that focus on more targeted tax exemptions and credits, make for a strong economic development incentive portfolio.

COMPARING OTHER STATES

The QTI is a prime example of where Florida's incentives toolkit can enable the state to better compete with other states in important industry recruitment. This program is used to incentivize companies that provide high wages in specifically targeted industries to come to Florida.[39] Industries that are usually targeted tend to be those in innovative fields, as they could lead to growth in an expanding sector, or industries that are underrepresented in Florida's economy, as a way to diversify the state's economic portfolio.[40]

Currently, the most common industries in Florida's QTI program are Manufacturing, Management of Companies and Enterprises, and Professional, Scientific, and Technical Services.[41] With an estimated average return on investment of 6.8 dollars in tax revenue for every dollar used offered in incentives, QTI's are among Florida's most successful economic development tools.[42]

For example, in 2015, CVS Pharmacy was enticed by the QTI program to expand its presence in Florida. The pharmacy chain will operate a 112,000 square foot distribution and logistics facility in Orange County that is slated to open in early 2016.[43] As part of the QTI contract agreed upon by state and local agencies and CVS, the company is set to create 275 jobs by the end of 2016, and 225 more by the end of 2017, bringing 500 new jobs to the area. These jobs will also have a significant impact on the region's economy as the average salary of the jobs created is expected to be roughly 49,000, nearly $10,000 higher than the state's average annual salary.[44]

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39 The Florida Times Union. *Explaining Incentives - Florida's Qualified Target Industry (QTI) Tax Refund.* Mar. 11, 2010.

40 Ibid.

41 Office of Economic & Demographic Research. *Return-on-Investment for Select State Economic Development Incentive Programs.* January 2014.

42 Ibid.

43 Orlando Business Journal. *Gov. Rick Scott confirms 500 new jobs from CVS Health in Orange County.* Dec. 21, 2015

44 Ibid.

QTI agreements also stipulate that the state will not grant any financial support unless the agreement of total jobs created and average salaries per job are met during the proposed timeline. Under the agreement, when its obligations are met, the company will receive a $1.5 million incentive package, 80 percent ($1.2M) of which will come from the state, while the rest will be paid for by the county.[45]

The economic benefits of the agreement are expected to easily eclipse the cost of the contract. Forecasts show that, if successful, the expansion and creation of new jobs is expected to add approximately $18.7 million to Orange County's tax collections.[46] While this return alone makes the project a sound taxpayer investment, indirect effects could create millions of dollars in additional revenue. Indirect effects from a capital investment project such as the CVS expansion can come from the newly accumulated wealth of those benefiting from the new jobs. In laymen's terms, when new, relatively high paying jobs are created, new consumers are created, who can then reinvest their income back into the local economy by shopping, investing, buying new homes, etc. As a result, this increased flow of capital due to the presence of the CVS expansion can indirectly create more jobs in other sectors of the state and local economies.

Florida's QTI program has not just enticed companies to expand, it has also facilitated the relocation of various companies. When IMS ExpertServices looked into relocating its firm, it took to a national search. With a competitive market for tax incentives, the company was seeking the best opportunity to grow its company. IMS ExpertServices narrowed down the search to three cities, Atlanta, Denver, and Pensacola, ultimately choosing to relocate to Pensacola. When asked why it chose Pensacola, IMS ExpertServices' CEO Mike Wein stated that the QTI incentive program offered by the state of Florida was a key factor in the decision.[47] The proposal from IMS ExpertServices laid out that the average salary of employees in the Pensacola office would be $64,000, which at the time was about twice as high as the local average.[48] In this case, Florida's QTI program was able to compete on a national stage, which allowed Pensacola to be selected instead of some of the most well-known cities in the nation.

Tax Incentives Can Be Used to Revitalize An Area

While the state has had success in enticing companies to either expand within the state or to relocate to Florida over another location, tax incentives can also be used as an economic development tool aimed at revitalizing a region. A poignant example in Florida is the private space exploration firm Blue Origin's decision to build a new manufacturing and rocket launch facility in the Space Coast region.

45 Ibid.

46 Ibid.

47 Florida Trend. *Incentives Boost Success.* Janet Ware, Sept. 1, 2006.

48 Ibid.

The Space Coast, which is located primarily in Brevard County, was greatly affected by the federal government reducing NASA's funding,[49] and the attraction of Blue Origin is expected to aid in the economic revival of the area. Blue Origin plans to invest $200 million into the Brevard County project, which is expected to bring with it new infrastructure in the form of a 50,000 square foot manufacturing and launch facility, more than 300 high-wage jobs that are expected to pay on average $89,000 per year, and capital investment in the region.[50]

The state and Brevard County have partnered together to make this deal possible. The county has agreed to an $8 million grant, while the Florida legislature has earmarked $10 million in additional funding.[51] Blue Origin's expansion into Florida, from its locations in Washington and Texas,[52] supports the claim that Florida's tax incentive program in the field of Science and Aerospace technology are competitive with the rest of the nation. The success of this incentive package is expected to have a lasting impact on the area, as the $200 million investment into the region will provide much needed aid to a city in the midst of an economic recovery. The added benefit of the indirect effect that will come from the creation of 300 high paying jobs, as well as the construction jobs and materials needed for the completion of the company's new facility in the region, will undoubtedly have a positive economic impact on the Space Coast, allowing new, local wealth to flow through the area.

"Made in Georgia" Now An Industry Standard

In many industries, Florida's tax incentive programs have led to positive economic impacts on the state while also making Florida competitive in the overall national landscape. There are, however, some industry-specific incentive areas in which Florida can improve. Prime examples of incentives that have lagged behind competitor states and have thus far failed to recoup Florida's investments are those offered to the film industry.

Incentives provided to the film industry brought a return on investment of 0.54 in the time between FY2010-11 to FY2012-13. Following a poor return on the public's investment, the Florida Legislature denied the film industry's request to replenish the incentive funds in 2014. Florida was not alone, as many states reduced or completely eliminated their film industry incentive programs around that same time.[53]

Since 2014, when the Legislature opted not to replenish the incentive funds, many film industry leaders have spoken out against the practicality of filming in Florida. Mitch Glazer, a Miami native, and creator of the popular TV series "Magic City," has been vocal on the issue. Glazer stated that his financiers have pressured him to film in other states like Georgia and Louisiana that are still industry-friendly.[54]

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49 The Seattle Times. *Blue Origin to create rockets, jobs on Florida's Space Coast.* Sept. 15, 2015

50 Bay News 9. *Blue Origins, Embraer getting incentive deals for new jobs.* September 1, 2015.

51 The Seattle Times. *Blue Origin to create rockets, jobs on Florida's Space Coast.* Sept. 15, 2015

52 Blue Origin. www.blueorigin.com

53 Bradenton Herald. *Florida's entertainment industry fights for flailing tax-incentive program.* July 1, 2015.

54 Ibid.

While Florida is still a popular setting for film and television projects, industry experts have noted that high-profile films can still take place in Florida, while spending little to no time actually filming in the state. For example, recent blockbuster films such as *Ride Along 2* have spent as little as two weeks in the state, filming mostly exterior shots that need Florida's landscape or certain iconic landmarks, then production leaves the state to finish the majority of the movie in another, more tax-friendly location.[55] Additionally, the recently released film *Dirty Grandpa*, starring Robert De Niro and Zac Efron, is set in Daytona Beach, but was filmed on Tybee Island in Georgia.[56] Deborah Miehls, the film commissioner for the Bradenton Area Convention and the Visitor Bureau claimed the lack of film industry tax incentives creates a scenario where films "might be able to save so much that they can make Louisiana look like Florida."[57]

While Florida and other states have either ceased or trimmed their investment in the film industry, neighboring Georgia has benefitted significantly from efficient and productive investments. In FY2007-08, the first year of the state's tax credit program, the estimated impact of the film industry was only $260 million.[58] By FY2014-15, the estimated total economic impact of the film industry on the state of Georgia was a staggering $6 billion.[59] Largely as a result of its incentives package for the industry, Georgia is one of the most popular states in the nation to film.[60]

The extreme growth of the film industry in Georgia has had a significant impact on all facets of the state's economy. Since the expansion began, more than 100 new businesses have either relocated to or expanded within the state,[61] and there has been a significant impact on jobs, as more than 30,000 professionals are working in the film industry in Georgia.[62] In fact, a recent article by the Wall Street Journal claims that the industry has grown so much that there is a now a shortage of available crew members in the state.[63]

The effects of the film industry on Georgia's economy are far reaching. Take Marvel's blockbuster film *Ant-Man*, for example. Primarily shot in Georgia, the film employed more than 3,500 residents, spent over $100 million in Georgia, and utilized nearly 22,500 hotel rooms during its production.[64] This type of impact is not isolated to one experience. Major television shows such as *The Walking Dead, Archer, Parks and Recreation,* and *Quantico* have all utilized

55 Bradenton Herald. *Florida's entertainment industry fights for flailing tax-incentive program.* July 1, 2015.

56 Ibid.

57 Ibid.

58 NBC News. *Lights, Action, Jobs! Georgia Focuses on Role as Filmmaking Center.* Sept. 7, 2015.

59 Ibid.

60 Wall Street Journal. *Georgia's Booming Film Industry Produces Shortage of Crew Members.* February 6, 2015.

61 Georgia Dept. of Economic Development. *Film Industry Generates $6 Billion for Georgia's Economy.* July 9, 2015.

62 Georgia Dept. of Economic Development. *Georgia Film and Television Production.* Accessed Jan. 20, 2016.

63 The Wall Street Journal. *Georgia's Booming Film Industry Produces Shortage of Crew Members.* Feb. 6, 2015

64 Georgia Dept. of Economic Development. *Film Industry Generates $6 Billion for Georgia's Economy.* July 9, 2015.

Georgia for filming and/or post-production work, as have box office giants *The Hunger Games* (multiple movies within the series), *Anchorman 2,* the upcoming *Captain America: Civil War,* and *Guardians of the Galaxy 2,* and the second and third installments of the *Insurgent* series.[65]

Highlighting Georgia's astronomical growth in the film and television industry is not to say that those specific incentives are the answer for Florida, but this example shows that effective tax incentives can have a positive economic impact if consistently used and correctly targeted. The growth of Georgia's film industry has taken what was once a minor economic factor and turned it into an engine that truly impacts the state's economy.

Incentives warchests make a difference

Regional competitor states continue to outpace Florida in terms of recent incentives packages offered to companies to relocate to or expand within their borders. Whether through long-term tax abatements or lump-sum grants, Florida's competitor states are offering substantial incentive packages, as evidenced by just a few recent transactions:

- In the Spring of 2015, Tennessee offered, separately, $166 million to Volkswagen[66] and $35 million to Nissan[67] to expand their respective auto plants within the state. Volkswagen projects that nearly 10,000 jobs will be created, and will be investing $704 million itself for the expansion. Nissan's Smyrna plant expansion will bring at least 1,000 jobs, and focuses on bringing other suppliers into the new facility, helping to increase job growth above the initial estimate.

- In April 2013, South Carolina offered Boeing $120 million in incentives for expansion costs and site preparation to expand its 787 production capacity, adding 2,000 jobs to the existing complex. Boeing will invest $1 billion to make the expansion possible.[68]

- In February 2015, Louisiana provided a performance-based grant of $34 million to American Specialty Alloys to offset site-related infrastructure costs. The company will invest $1.2 billion and retrofit the previously closed International Paper mill to produce aluminum alloy for automobile bodies. The location promises 450-650 jobs paying an average of $85,000 a year.[69]

- In January 2015, Georgia provided an incentives package worth $23.3 million to Mercedes-Benz to move its U.S. headquarters from New Jersey, bringing 800 jobs with an average annual salary of $78,000, and a $73 million investment from the German automaker.[70]

65 The Internet Movie Database. www.imdb.com/search/text?realm=title&field=locations&q=Georgia

66 Memphis Daily News. *Volkswagen Study: Tennessee Plant Expansion Could Create 10,000 Jobs.* May 28, 2015.

67 The Tennessean. *Nissan to add 1,000 jobs in Smyrna.* March 18, 2015.

68 USA Today. *Boeing plans $1 billion expansion in S.C.* April 9, 2013.

69 Mississippi Business Journal. *American Specialty Alloys won't locate $1.2B mill in Mississippi*. February 21, 2015.

70 The Record (northjersey.com). *Life after Mercedes-Benz: Montvale resigned to carmaker's move, welcomes new business.* July 5, 2015.

Even with a good business and tax environment, a great climate, and a world-class workforce, for Florida to compete with states that can offer these sizeable incentive packages, it must be willing to increase the amount available for economic development efforts. Whether through increasing the Quick Action Closing Fund, or expanding the amounts available to the "toolkit" as a whole, the state stands to benefit from increasing its investment in these types of programs.

CONCLUSIONS AND RECOMMENDATIONS

Eager to attract new jobs, states compete against each other by offering lucrative incentives to businesses and industries that have expressed an interest in relocating or expanding their operations. Many states see this as a good investment, since it increases employment opportunities in the short term and increases tax revenues over the long term. Businesses see this as a good investment, since the incentives help them retain current jobs, create new jobs, and remain competitive within their industry. This situation has created a "buyer's market" where the corporations can pit one state against another to drive up the bidding to get the most lucrative incentives package.

This competitive market is why Florida's economic development incentives program is so important. Florida's favorable tax climate, weather, infrastructure, and educated workforce, by themselves, are no longer sufficient to attract new jobs to Florida. If Florida is to remain competitive with other states, a robust economic development incentives portfolio, focused on those incentives that provide the greatest benefits to the taxpayers (i.e., greatest ROI, most jobs created, and greatest capital investment), is critical.

Florida TaxWatch recommends:

- The Florida Legislature should continue to fund economic development incentives at meaningful levels to enable the state to compete effectively against other states in attracting new businesses and jobs to Florida, and to effectively grow and expand existing businesses in Florida.
- Funding should be prioritized and directed to those economic development incentives programs that have demonstrated the highest returns on investment, largest numbers of jobs created, and greatest capital investments, or achieve other critical public benefits.
- Those economic development incentive programs with marginal or negative ROIs should be subjected to additional scrutiny and study to determine whether it is in the state's best interest to keep these incentive programs as part of the state's economic development incentive portfolio.

ABOUT FLORIDA TAXWATCH

As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the citizens of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

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The findings in this report are based on the data and sources referenced. Florida TaxWatch research is conducted with every reasonable attempt to verify the accuracy and reliability of the data, and the calculations and assumptions made herein. Please feel free to contact us if you feel that this paper is factually inaccurate.

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