A FLORIDA TAXWATCH BRIEFING

Florida TaxWatch

2022 Legislature Should Reauthorize the Qualified Target Industry (QTI) Tax Refund Program

Florida's Flagship Economic Development Program has a Proven Track Record

SEPT. 2021

There has been an ideological debate regarding economic development incentives brewing in the Legislature for several years. There are those that contend incentives are "corporate welfare"–unaccountable giveaways that do not provide intended results. Others say they are key to creating high-paying jobs and a diversified and resilient economy. Some of the criticisms of incentives are valid, but the latest casualty of this debate is hard to justify.

The Qualified Target Industry (QTI) Tax Refund Program was designed to address many of the criticisms. It is a performance-based program that refunds some of the taxes a business has already paid, but only after it is verified that the contracted requirements have been met, including the promised increase in high-wage jobs. The program is only available to the most sought-after industries with the biggest economic benefit and only those that have not yet decided to locate or expand in Florida. It promotes economic development in rural and environmentally blighted areas. Applicants must have the support–including a shared financial commitment–of the local community where the business is located. The program also has bi-partisan legislative support, is loved by state and local economic developments agencies, and consistently outperforms expectations, with businesses creating significantly more jobs than were required. And most-importantly, the program provides taxpayers with a significant return-on-investment of more than 5 to 1–producing more than $5 of additional state revenue for each dollar the state pays out in refunds.

You would think that if such a program was scheduled to sunset, extending it would be a slam-dunk. Florida TaxWatch thought so, and we were surprised and disappointed when two consecutive legislative sessions–despite considerable bi-partisan support–failed to extend the Qualified Target Industry Tax Refund Program.

The statute that governs QTI has an expiration provision that states that no additional applicants may be certified under the program after June 30, 2020, although existing agreements will continue to be in effect according to their terms. The expiration date–originally 2004--has been extended three times since the Legislature created QTI in 1994.

In 2020, SB 922–which would have removed the expiration date–was approved by the Senate by unanimous vote in committee and on the floor. The Senate also added the language to the tax package (HB 7097). But with COVID-19 just arriving in Florida and the Legislature wanting to boost the state reserves, most provisions in the bill–including the QTI extension–were removed from the bill just before the final vote. In 2021, the Senate again advanced a bill (SB 982) to reauthorize it, but to no avail.

Florida can wait no longer, QTI needs to be revived.

How QTI Works

The Qualified Target Industry (QTI) Tax Refund is an economic development tool available to Florida communities to encourage the creation and retention of high-wage, quality jobs in sought after, high value-added industries. If approved, a business may receive refunds on some of the state and local taxes it has paid--including corporate income, sales, ad valorem, intangible personal property, insurance premium, communications services, and certain other taxes.

QTI is a grant program, subject to annual appropriation. Each QTI project has a performance-based contract, which outlines specific milestones that must be achieved and verified by the state prior to payment of funds. The amount of the tax refund awarded through the program is determined by, among other factors, the number of jobs created, the average annual wages paid, and the location of the eligible business.

Eligibility

In order to qualify for consideration under the program, an applicant must:

- Be in a target industry (see "What is a Target Industry" (page 3));
- Submit an application before making a decision to locate or expand in Florida and demonstrate that the tax refund will make a material difference in the company's decision;
- Create at least 10 net new full-time equivalent Florida jobs (an expansion project must increase employment by at least 10 percent);
- Pay an average annual wage that is at least 115 percent of the state, metropolitan statistical area (MSA), or local average;
- Show that the jobs make a significant economic contribution to the area economy; and
- Provide a resolution from the city or county commission committing the community to provide a local match equaling 20 percent of the tax refund.

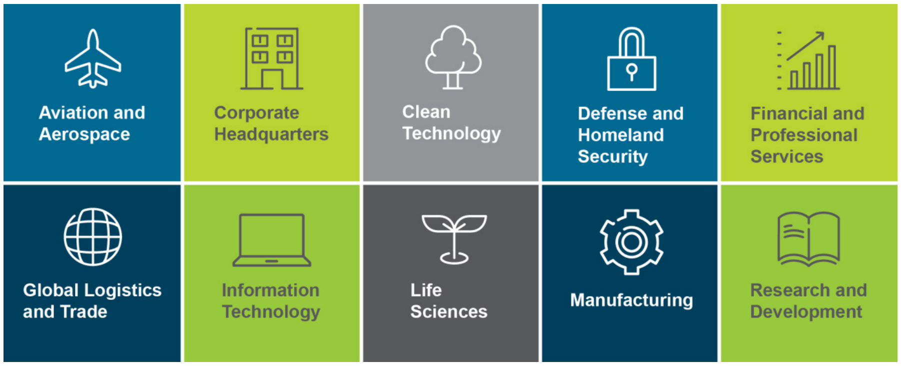
For projects in rural or designated brownfield areas, the employment, wage, or local match requirement may be waived in special circumstances.

Award

If approved, businesses receive tax refunds of $3,000 per new full-time Florida job created ($6,000 if in a Rural Community). Additional awards may be awarded (maximum amount):

- $1,000 per job for businesses paying at least 150 percent of the prevailing average annual wage or $2,000 per job for businesses paying at least 200 percent of the prevailing average annual wage
- $2,000 per job if the business falls within a designated high impact sector <u>or</u> if the business increases exports of its goods through a seaport or airport in the state by at least 10 percent

QUALIFIED TARGET INDUSTRIES



Source: Florida Department of Economic Opportunity, Enterprise Florida, "2020 Incentives Report," January 2020.

- $2,500 per job (Brownfield Bonus) if project is located in a designated Brownfield area with site rehabilitation agreement (BSRA); and
- $1,000 per job if the local financial support is equal to the base QTI award.

The tax refund for an approved business is limited to $1.5 million in a single fiscal year[1] and no more than 25 percent of the total refund may be taken in any single fiscal year.

A qualifying business submits a claim each year for the scheduled tax refund. The terms and conditions of the agreement must be met, and the community must pay its local match, before the refund is paid.

What is a Target Industry?

To qualify, a business must apply with the Department of Economic Opportunity (DEO) to be certified as a qualified target industry business. Generally, target industries more strongly influence the economy than other industries because they tend to have the highest multipliers[2]. Florida Statutes[3] identify the following criteria for target industries:

- Future growth – industry forecasts should indicate a strong expectation of growth.
- Stability – the industry should not be subject to periodic layoffs and should be relatively resistant to recession.
- High wage - the industry should pay high wages compared to statewide or area averages.
- Market and resource independent – the location of businesses should not be dependent on Florida markets or resources, with an exception for the renewable energy industry.
- Industrial base diversification and strengthening - the industry should contribute toward expanding or diversifying the state's or area's economic base.
- Positive economic impact – the industry is expected to have strong positive economic impacts or benefits to the state or regional economies.

Within these criteria, special consideration is given to businesses that: export goods to, or provide services in, international markets or replace imports of goods or services; facilitate the development of the state as a hub for domestic and global trade and logistics; or build strong regional industrial clusters, especially with defense or homeland security industries.

The current qualified target industries are aviation and aerospace; corporate headquarters; clean technology; defense and homeland security; financial and professional services; global logistics and trade; information technology; life sciences; manufacturing; and research and development[4].

Return-on-Investment Analysis

The 2013 Florida Legislature instituted a process to review the state's economic development programs by, in part, calculating each programs' return-on-investment (ROI). Under the process, the Office of Economic and Demographic Research (EDR), along with the Office of Program Policy Analysis and Government Accountability (OPPAGA), evaluates incentive programs on a recurring three-year schedule. EDR must quantify the economic benefits of each program, using project data from the most recent three-year period, and to provide an explanation of the model used in its analysis and the model's key assumptions. Economic Benefit is defined in statute as "the direct, indirect, and induced gains in state revenues as a percentage of the state's investment.[5]" The state's investment includes tax exemptions, credits, and refunds, as well as state grants. The evaluation also quantifies specific economic

1 The maximum single-year award may be increased to $2.5 million if the project is in an enterprise zone.

2 Office of Economic and Demographic Research, "Economic Evaluation for Select State Economic Development Incentive Programs," January 2020.

3 Section 288.106, Florida Statutes.

4 Section 288.106(2)(q), F.S. require that every three years, beginning January 1, 2011, the DEO must consult with EFI, economic development organizations, the State University System, local governments, employee and employer organizations, market analysts, and economists to review and revise the list of target industries. The last review (2020) maintained the current list.

5 Section 288.005(1), Florida Statutes.

benefits including, jobs created, personal income, and state Gross Domestic Product (GDP). Projects that are dependent on Florida's market or resources, are "culled" from the analysis–the cost to the state is included, but not the benefit.

There have been three review cycles completed, with reports issued in 2014, 2017, and 2020.[6] The evaluations show the QTI program has provided the state with a "steady and robust" ROI. In fact, it has the highest ROI of any of the economic development programs in the three-year review cycle. The latest ROI for QTI is 5.3, meaning for every dollar of state investment (tax refunds), the state receives $5.30 in added state tax revenue (see table below).[7]

The 2020 analysis[8] looked at the 94 projects approved in the QTI program. Incentives are often "bundled" together, and 28 of the QTI projects were bundled with one or more other incentives, most often the Quick Action Closing Fund. The benefits for these bundled incentives were allocated among all programs based the share of QTI incentive payments, which may understate the benefit from QTI.

The 94 QTI projects received tax refunds of $12.7 million, generating the following estimated benefits:

- Net increase in state revenues - $68.04 million
- New direct jobs created - 12,156
- Average annual wage - $79,020
- Personal income - $3.9 billion
- Real Disposable Income - $3.0 billion
- Real Gross Domestic Product - $4.6 billion
- Consumption - $2.5 billion
- Real Output - $9.0 billion
- Net Employment – 5,047
- Population – 3,102

The ROI of 5.3 estimated for QTI in the 2020 analysis follows previous ROIs of 4.4 in 2017 and 6.4 in 2014.

6 Office of Economic and Demographic Research, Return on Investment webpage - http://edr.state.fl.us/Content/returnoninvestment/index.cfm

7 Note: The years and the totals in this table do not match those in the EDR report. Florida TaxWatch discovered that they were listed incorrectly in the EDR report, confirmed this with EDR staff, and the numbers in this table are correct.

8 Office of Economic and Demographic Research, "Economic Evaluation for Select State Economic Development Incentive Programs," January 2020.

RETURN-ON-INVESTMENT AND ECONOMIC IMPACTS OF THE QTI PROGRAM

$ MILLIONS

	FY 2016	FY 2017	FY 2018	Total
State Refunds Paid	$5.35	$3.13	$4.26	$12.74
Net State Revenue Added	$18.57	$25.57	$23.91	$68.04
Return on Investment	3.47	8.16	5.62	5.34
Economic Impacts				
Personal Income	$410.5	$581.4	$570.8	$1,562.7
Real Disposable Income	$332.2	$461.1	$442.1	$1,235.4
Real Gross Domestic Product	$565.6	$720.6	$699.1	$1,985.3
Consumption	$410.2	$561.1	$526.5	$1,497.8
Real Output	$1,061.1	$1,354.2	$1,353.2	$3,768.5
Net Employment	2,112	1,760	1,175	5,047
Population	22	930	2,150	3,102

Source: Florida TaxWatch, from the Office of Economic and Demographic Research, "Economic Evaluation for Select State Economic Development Incentive Programs," January 2020.

The 6.4 ROI is the highest found for any program since the state's analysis began. The decrease in ROI from 2014 from 2020 is due, in part, to a growing strength of the QTI—economic diversification. There were 36 different industries in the latest review, compared to 11 in 2014. With the larger number and wider range of industries in 2020, there are more with lower multipliers (such as Professional, Scientific and Technological Services compared to Manufacturing). Also, more QTI projects were bundled with other incentives with lower ROIs.

The state's analysis credits the QTI program's design for the high ROI. "The QTI program was designed to attract business in high growth, recession resistant, market independent and high wage industries such as manufacturing and professional services."

It should be stressed that ROI only includes the tangible financial gains or losses to state revenues and does not include any associated benefits from economic development, such as societal benefits. For example, the legislative findings section of the QTI statute states: "The Legislature further finds that higher-wage jobs reduce the state's share of hidden costs, such as public assistance and subsidized health care associated with low-wage jobs."[9]

The QTI program consistently produces benefits that exceed the requirements on the performance agreements. In FY2019-2020, the last fiscal year during which applicants could be certified under the program, 159 business created 7,890 jobs, compared to 4,822 jobs promised[10]. Actual jobs exceeded expected jobs by 3,068. Further, in most years, the wages for jobs created under QTI were greater than 140 percent of the statewide average annual wage, far exceeding the minimum wage requirement of 115 percent of the average.[11]

9 Section 288.106(1), Florida Statutes.

10 Florida Department of Economic Opportunity and Enterprise Florida, 2020 Incentives Report.

11 Office of Economic and Demographic Research, "Economic Evaluation for Select State Economic Development Incentive Programs," January 2020.

What is Florida Missing Without QTI?

Florida's economic development professionals strongly support QTI and considered it the cornerstone to the state's efforts and key to attracting high quality jobs to our state.

Jamal Sowell, Florida's Secretary of Commerce and the President and CEO of Enterprise Florida, Inc. (EFI), credits QTI with playing a big role in the growth and diversification of the state's manufacturing sector.[12] He said QTI was one of the most beneficial economic development efforts the state has undertaken, because it is a performance-based incentive.

Panelists at a program held by the Florida Economic Development Council[13] bemoaned the loss of QTI, saying that Florida is now "out of the game" when it comes to attracting new business from out of state and that despite Florida's many business climate assets, it cannot compete with incentives offered by states like Texas, Tennessee, Georgia, and North Carolina. A business relocation and site selection specialist said that Florida is less competitive than it was two years ago and because of the loss of QTI, it is "losing out on billions." He said it also hurt Florida's chances to bring the Space Command Headquarters to Brevard County. The Headquarters, along with its 1,500 highly paid workers, 700 indirect jobs, $1 billion in construction costs, and the potential to attract accompanying aerospace, avionics and telecommunications industries, is going to Huntsville, Alabama. Looking forward, he said "reinstating the QTI will help Florida, particularly Panhandle communities like Crestview, Pensacola, Fort Walton Beach, and Panama City, compete against cities in Georgia, Louisiana, and Alabama for a lot of those supplier jobs that we expect to be gravitating to do

12 Florida Politics, "Business leaders push for tax incentives ahead of economic development week," February 7, 2020. https://floridapolitics.com/archives/318384-business-leaders-push-for-tax-incentives-ahead-of-economic-development-week/

13 Florida Economic Development Council's (FEDC) Virtual Engagement: Putting Floridians Back to Work, January 21. 2021. FEDC Legislative Priorities (fedconline.org)

business with the new space command headquarters in Hunstsville…"[14]

An aerospace representative noted that one in four businesses are currently considering relocating their operations. "Florida needs to either seize this opportunity or it will pass us by," he said. "It is a transformational time, and we need to seize the moment. This will affect Florida for decades."[15]

Recently, Florida–specifically Tampa–lost two "mega projects" to North Carolina–Honeywell's global headquarters and health care giant Centene's massive new campus–over a million square feet of office space and more than 3,200 jobs. While there were many other factors involved, the loss of QTI likely played a role. Here's a competitor's perspective: "You have to imagine the QTI incentive was an important part of the 'total package' that Florida offered to both those companies. So, in that context, it's fair to assume that Florida no longer having its flagship incentive program will diminish its competitiveness relative to other states like N.C. that can still utilize the full breadth of their incentives arsenal."[16] Florida has also recently lost other companies to North Carolina: Aircraft Solutions USA, Pamlico Air, and LabCorp.

When businesses decide where to relocate or expand, many factors can tip the scales in one direction or the other. The availability of skilled labor, transportation infrastructure, energy availability and costs, and quality of life are four of the most cited factors. Area Development magazine, founded in 1965, publishes information on corporate site selection and relocation. Area Development has published an annual survey of corporate executives for 35 years that ranks the importance site selection factors. In its latest survey, state and local incentives rank ninth in importance but 77 percent of corporate executives rate them as a "very important" or "important" consideration in site selection.[17]

EDR performed a review of the research on site selection factors and concluded: "Survey research and professional opinions indicate that incentives are not likely to be a primary consideration in site selection. However, practitioners indicate it can be a disqualifying factor at the initial stage (a fatal flaw) and may be a deciding factor or the deciding factor at the final stage."[18]

This aligns with Florida TaxWatch's long-held position on incentives–they will not be the only reason a company chooses a particular place to locate, and they will not make up for major shortcomings in other important factors, but they certainly can make a difference. If a company has narrowed its search to a few worthy choices, incentives can seal the deal.

Conclusions

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 in location. Every state offers some kind of incentive 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.

14 John Boyd, Jr., principal of New Jersey-based corporate site selection firm The Boyd Company, quoted in New Service of Florida, "Florida's economic development officials push for incentives," January 21, 2021.

15 The Capitolist, "Florida "out of the game" without financial incentives," January 21, 2021. https://thecapitolist.com/florida-out-of-the-game-without-financial-incentives/

16 Chris Chung, CEO of the Economic Development Partnership of North Carolina, quoted in Tampa Bay Economic Development Council, "Florida's loss of QTI has competing states celebrating – and winning projects from us already," July 30, 2020.

17 Area Development, 35th Annual Corporate Survey: Effects of Global Pandemic Reflected in Executives' Site and Facility Plans," Q1, 2021.

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

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, it would be naïve to believe that a state could successfully implement a robust economic development strategy without offering some type of incentives.

Incentives are 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 well-trained workforce or a good tax structure, but they cannot be ignored as a part of the overall strategy for economic development.

Florida has many attributes that companies find attractive, but so do other states. Incentives can be a deciding factor for a company choosing between multiple states that suit their needs. The "fatal flaw" argument is also an important one. Some companies may eliminate states without attractive incentives at the beginning of their selection process. Florida has discovered this when it lost its television and motion picture incentive program[19]. Incentives can help to bring a company to the table to allow economic development professionals to sell it on Florida's other advantages.

Overall, the QTI program was a very successful tool for Florida's economic development and provided a significant positive return-on-investment to the state. Florida TaxWatch agrees with the Department of Economic Opportunity—"Florida has lost a heavily utilized and successful economic development tool at an inopportune time.[20]"

19 Florida TaxWatch, Is the Sun Setting on Film in Florida?, November 2018. https://floridataxwatch.org/Research/Full-Library/ArtMID/34407/ArticleID/18645/Is-the-Sun-Setting-on-Film-in-Florida

20 Florida Department of Economic Opportunity and Enterprise Florida, 2020 Incentives Report.

Most everyone wants to create high-paying jobs and build a more diversified and resilient economy. The trick is to create an incentive that truly incentivizes companies to locate or expand in your state, while providing proper safeguards, oversight, and a positive return for the taxpayer. Florida has already developed such a program—the Qualified Target Industry Tax Refund Program. Now we just have to start using it again.

The 2022 Legislature should reauthorize the QTI program.

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.

Florida TaxWatch is supported by voluntary, tax-deductible donations and private grants, and does not accept government funding. Donations provide a solid, lasting foundation that has enabled Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves since 1979.

FLORIDA TAXWATCH RESEARCH LEADERSHIP

Dominic M. Calabro	President & CEO
Tony Carvajal	Exec. Vice President
Robert G. Nave	Sr. VP of Research
Kurt Wenner	Sr. VP of Research

RESEARCH PROJECT TEAM

Tony Carvajal	*Executive Vice President*
Kurt Wenner	*Sr. Vice President of Research* Primary Author
Chris Barry	*VP of Communications & External Affairs* Design, Layout, Publication

All Florida TaxWatch research done under the direction of Dominic M. Calabro, President, CEO, Publisher & Editor.

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.

The research findings and recommendations of Florida TaxWatch do not necessarily reflect the view of its members, staff, Executive Committee, or Board of Trustees; and are not influenced by the individuals or organizations who may have sponsored the research.

Florida TaxWatch

Stay Informed

floridataxwatch.org

@floridataxwatch

@floridataxwatch

@fltaxwatch

Florida TaxWatch
106 N. Bronough St.
Tallahassee, FL 32301

o: 850.222.5052
f: 850.222.7476