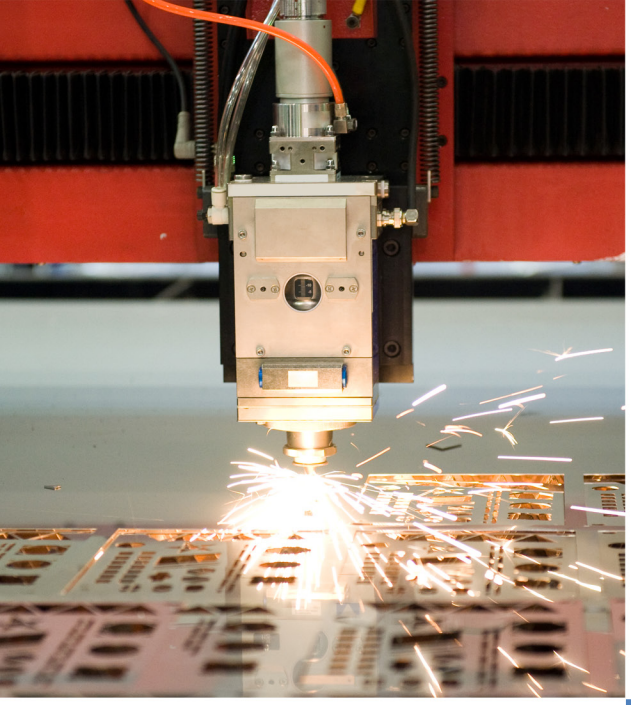


Diversifying Florida's Economy Through Local Economic Development

JANUARY 2014

Florida TaxWatch

center for Competitive Florida

Introduction

The basic tenet of economic development is that a community should use its available resources to attract the types of individuals and companies that will help grow and diversify its economy. For long-term stability and prosperity, local officials should strive for a balanced economy that can withstand economic downturns and provide high wage jobs for that community.

In January 2013, Florida TaxWatch published *Investing in Tourism: Analyzing the Economic Impact of Expanding Florida Tourism*. One of the notable findings of the *Report* was that of the jobs created by increasing spending by tourists in Florida, just over half of those jobs (50.3 percent) were in the tourism and hospitality categories, the two typical categories used when quantifying tourism;while the remaining 49.7 percent of jobs created were in a variety of other industries, showing substantial spillover effects on multiple sectors of the economy.

Local officials responsible for economic development are often presented with project proposals that promise to create jobs, but these projected impacts often do not include the spillover effects of the proposal, such as indirect and induced job creation, and the true opportunity cost of the project. As a result, local officials may approve a project that results in short-term positive outcomes, but negatively affects the long-term health and diversity of their economy. In order to reduce the risk of negative effects, local officials should look at multiple options for job creation, using the most accurate estimated impact of all available options.

When choosing between development projects, one key to the economic impact of the project will be the amount of added value to a product or process while it is in the state of Florida. Those with higher value-added numbers will create more income and more jobs than those with lower levels. Florida TaxWatch research has shown the correlation between added value and wages for Florida workers. This gives extra disposable income to Floridians and leads to higher standards of living, and higher tax receipts for the state and local governments.

This paper analyzes three options that have been popular choices of Florida communities to help develop their economies, and quantifies the direct, indirect, and induced jobs that can be expected, in order to predict the likely effects of those types of projects. While all three scenarios create jobs in a variety of categories, whether one scenario creates a more desired outcome than others will depend largely on the specific economic development goals of local communities.

Methodology

The dynamic econometric model, REMI PI+ for the state of Florida from Regional Economic Models, Inc., was used to calculate the indirect and induced jobs for the three different scenarios. The REMI PI+ model is a structural economic policy analysis tool that uses multiple modeling methods to analyze policy inputs. Those methods include input-output modeling, econometrics, general equilibrium, as well as economic geography. The model uses a control forecast that shows the expected development of the economic area over time, and modifications to that control scenario—such as the inputs described in this paper—allow for detailed estimates of the impacts of certain changes on the state's economy.

The advantage of using a dynamic model is that the effects of changing inputs can be traced over time, and the effects can be reliably modeled by year. It also allows for any expected population increases for each of the scenarios tested, including immigration from outside the state.

To illustrate varying levels of economic impacts, three common economic development project types were used: recruiting retirees; establishing a large logistics/transportation project; and expanding manufacturing.

The example in this analysis is done on a statewide level, and as projects will have different job creation effects depending upon where they are located within the state, local factors would have to be taken into consideration. However, the relative job creation effects, in most cases, will be the same on the regional level, and additional work would be necessary to accurately predict the local effect on any specific community.

The REMI PI+ model was modified with these three inputs:

- Increase of 1,000 retirees per year for 10 years
- Increase of 1,000 logistics jobs per year for 10 years
- Increase of 1,000 manufacturing jobs per year for 10 years

The inputs are "in excess" of what the model's control forecast shows. In other words, the effects of these additional jobs are isolated, so that the effect of the input in the model can be quantified. To put these input numbers into perspective, there are currently 317,800 manufacturing jobs in Florida.[1] There are 132,972 people working in the transportation and logistics categories used in this analysis,[2] and Florida currently has more than 3 million residents over the normal retirement age.[3] Adding jobs in low quantities is done so the modeled increases does not crowd out other industries in the model, which a very large increase has the potential to do in a dynamic model. The use of such a small quantity in a statewide model will also prevent a "clustering effect" (a positive outcome that should be taken into effect at a local level, and something that would be part of a thorough analysis of a local or regional economy) that could alter the results of this comparison.

1 U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey, seasonally adjusted, September 2013
2 U.S. Department of Labor, Bureau of Labor Statistics, Quarterly Census of Employment and Wages, 2012 Average
3 U.S. Department of Commerce, Census Bureau, 2010 US Census, 2012 estimates.

One note for those interpreting the results of the analysis: these results do not include the potential for increased capital expenditures. Including the capital expenditures would be appropriate when studying specific projects where they can be quantified, because capital expenditures increase the amount of jobs produced, typically having a large effect in the community of the project, although on a temporary basis. Typically, one might see capital expenditures in the construction, remodeling, and/or outfitting of a manufacturing plant or logistics center. Therefore, for this comparative analysis, excluding capital expenditures is appropriate, and these results should be considered a conservative number; most especially in the case of manufacturing, an industry that typically requires substantial capital expenditures for buildings and machinery and equipment.

The Industries Modeled

Manufacturing

The manufacturing industry provides high-wage jobs to Florida, and experienced the least volatile personal income of any Florida industry over the period from 1990 to 2011, as shown in *Manufacturing: An Economic Driver for Jobs and Florida's Future*, a 2011 Florida TaxWatch *Report*. The importance of this industry to the state is clear: manufacturing is the 6th-largest distinct non-farm, non-government employment sector in Florida, providing 317,800 jobs in Florida.

Developing manufacturing has several advantages in local economies:

- Wages are higher for manufacturing than they are for average jobs, increasing disposable income and retail purchases, which add to sales and use tax collections for the state, and for local governments;
- Exposure to other economies, since manufactured goods account for 85 to 90 percent of Florida exports;
- Expanding manufacturing could reduce inbound freight rates, lowering transportation costs for both businesses and consumers; and
- Manufacturing firms perform approximately 70 percent of U.S. industry research and development (R&D),[4] even though manufacturing accounts for only about 11 percent of the U.S. economy. Private companies capture less than half as much of the benefits from their own R&D as the general population does, leading to a public benefit.

There is a substantial opportunity to improve Florida's manufacturing base in terms of the size and mix of manufacturing outputs. High value-added manufacturing is correlated with high capital expenditures, and both of those are highly correlated with high wages and significant economic impacts on the state. However, only a small part of Florida's manufacturing is of the high value-added type, in part because Florida has the 49th-lowest per capita capital expenditures on manufacturing.[5]

4 Information Technology and Innovation Foundation. The Case for a National Manufacturing Strategy. April 2011.
5 Florida TaxWatch. Making Florida a Major Manufacturing State, April 2013.

One recent development that should help Florida's low per-capita capital expenditures on manufacturing is the passage of a Florida TaxWatch-recommended Sales and Use Tax exemption on manufacturing machinery and equipment by the 2013 Florida Legislature. This exemption is available beginning in April 2014, and will expire in three years without legislative action to extend the term. The waiving of the Sales and Use Tax on the inputs of manufacturing should help increase productivity of existing manufacturers who purchase capital equipment, and it will enhance recruitment of new manufacturing companies to Florida. Additionally, this action will temporarily end the double taxation of manufacturing machinery and equipment caused by Florida having both Sales and Use, and Tangible Personal Property taxes.[6]

Transportation and Logistics

Another key economic driver in Florida, the transportation and logistics industry creates jobs that have 30 percent-higher wages than the average Florida job.[7] In addition, the logistics industry creates jobs in other sectors, including construction, distribution, and warehousing. Florida has the potential to become a global hub for trade and further develop its production and handling of exports, as the state is extremely well-positioned for trade to Europe, South and Central America, and the Carribbean.

It is a substantial benefit to the state's economy to have a solid, integrated transportation system, as it attracts businesses seeking efficient transportation at a reasonable cost, and it facilitates increases in exporting activity, which helps diversify the economies of Florida and the U.S.

Florida: Made for Trade, a 2013 Florida Chamber Foundation report, states that export-oriented companies grow 15 percent faster, pay 15 percent higher wages, and are 12 percent more profitable than those firms who have only a domestic market.[8] That report, and the one that preceded it, *Florida Trade and Logistics Study*, found that nearly half of all trucks, trains, and cargo planes that enter the state loaded with goods exit empty.[9] These missed opportunities translate into increased transportation costs, as carriers need to pass along to consumers and manufacturers the cost of returning empty cargo containers and vehicles.

Florida is developing its logistics infrastructure to capture a larger share of containerized imports from the East that serve the Florida market, but typically enter the U.S. via other seaports. Florida is also working to strengthen its position as Latin America's gateway to the U.S., and vice versa. Improving a region's logistics and transportation efficiency, given its positive effect on regional and global competitiveness, will help draw new business to an area, an important consideration for local governments and economic development entities.

6 Some qualifying Florida manufacturing businesses have received Sales and Use Tax exemptions on manufacturing machinery and equipment – these exemptions were given to new businesses, and those who were expanding.
7 Florida Chamber Foundation. Florida Trade and Logistics Study. 2010.
8 Florida Chamber Foundation. Florida: Made for Trade: Florida Trade and Logistics Study 2.0. 2013.
9 *Ibid*

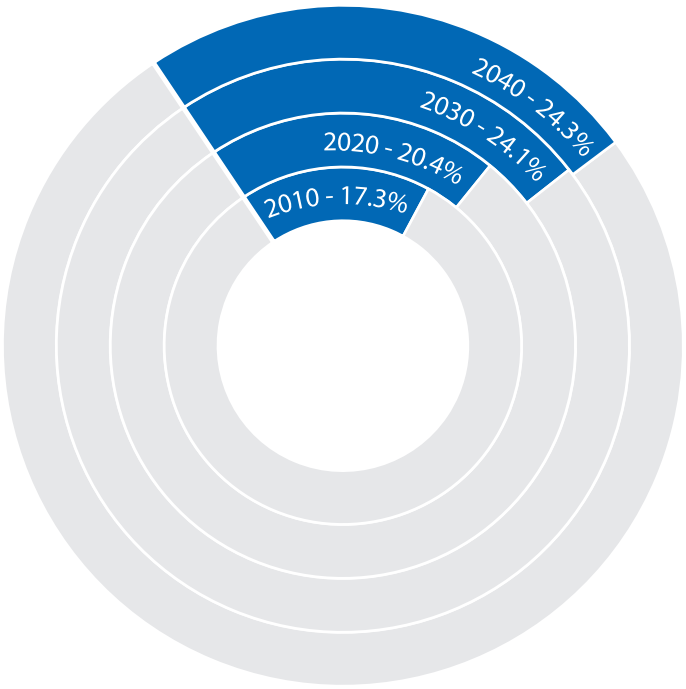
Retirees

The state of Florida has long been a favorite location for retirees. In fact, Florida's 65 and over population has been increasing faster than the rest of the population, growing by approximately 7.7 percent from 2010 to 2012, compared to a 1.7 percent increase for the total population.

Currently, Florida's population includes around 3.5 million citizens aged 65 and over, which is approximately 18 percent of the state's total population,[10] and roughly 8 percent of the nation's 65 and over population.[11]

The Florida Legislature Office of Economic and Demographic Research (EDR) projections indicate that in the year 2030, the 65+ age segment in Florida will increase to an estimated 24.1 percent of Florida's population (see chart below).[12]

Population Share for 65+ Age Group in Florida
(2010 - 2040 Projected)

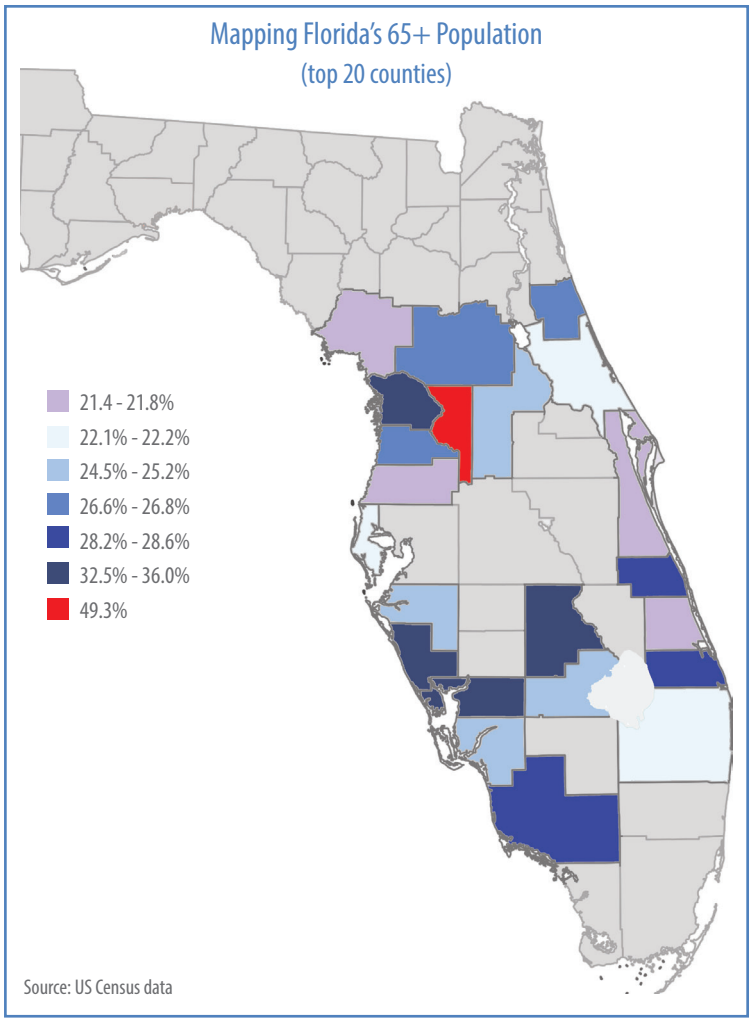


Source: The Florida Legislature Office of Economic and Demographic Research. "Florida: Demographics". http://edr.state.fl.us/Content/presentations/population-demographics/DemographicOverview_4-20-11.pdf

10 U.S. Department of Commerce, Census Bureau. 2012 Florida population estimates.
11 University of Florida Bureau of Economic and Business Research. Baby Boom Retirees and Florida's Job Structure. 2012.
12 The Florida Legislature Office of Economic and Demographic Research. "Florida: Demographics"

This increase will have a significant effect on Florida's taxpayers. The ratio of workers to retirees in the U.S. is currently around 4:1. Florida's ratio will approach two workers per retiree, likely increasing the tax burden on workers and companies substantially.

The counties with the largest share of population 65 and older are: Sumter (49.3 percent), Charlotte (36.0), Citrus (33.8), Highlands (33.0), and Sarasota (32.5). Further, the counties that have experienced the largest growth in population 65 and older are: Sumter (23.6 percent), Glades (16.8), St. Johns (15.5), Osceola (15.3), and Nassau (14.7).[13] Percentages for all Florida counties are shown in Appendix 1, and the top 20 counties are shown at right.



Generally, retirees provide substantial economic benefits to Florida's state and local economies. They typically have high rates of home ownership and, on average, own higher-value properties.[14] This means they are often substantial contributors to local governments' tax revenues, especially in terms of ad valorem property taxes. Retirees often make up a substantial number of volunteers in Florida non-profits, and are historically the group most likely to vote.

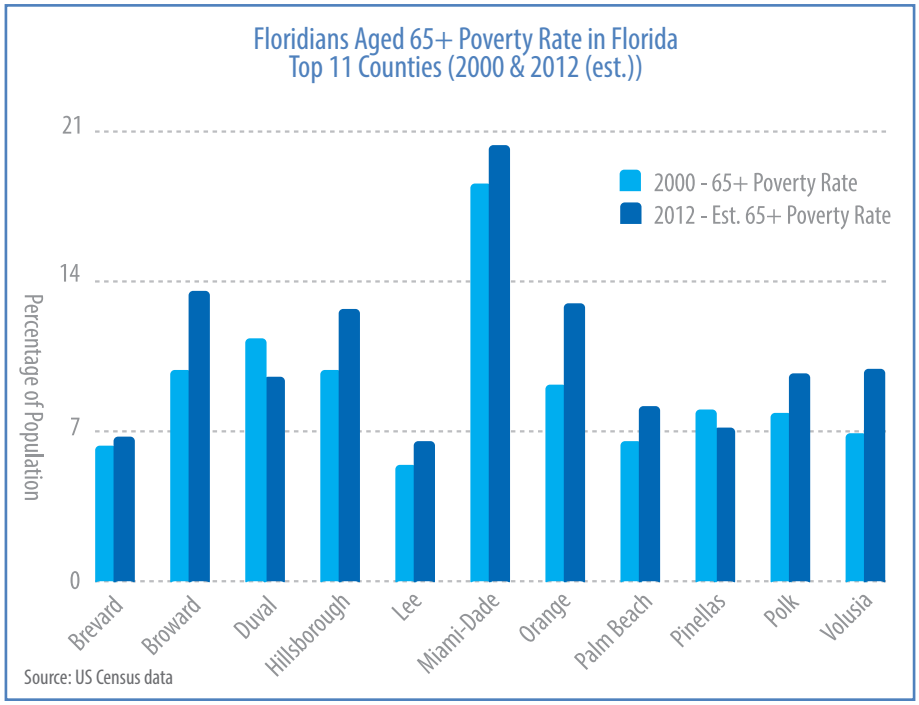
Many business executives retire to Florida and become mentors to local entrepreneurs, which can have substantial benefits to a local economy in terms of increasing employment in young start-up companies. These engaged executives often become angel investors and have helped Florida become a state with substantial opportunities for growth, which contributes to keeping our recent graduates in the state, and maximizing the return on taxpayer investments in higher education.

Florida also enjoys a substantial number of military retirees who have chosen the state to spend their retirement years. This group brings many economic and social benefits to Florida, as they typically bring steady incomes and paid medical care with them. Many of the military retirees have additional careers and fill leadership positions in companies in Florida that hire, train, and promote Floridians.

13 U.S. Department of Commerce, Census Bureau, 2010 US Census, 2012 estimates.
14 University of Florida Bureau of Economic and Business Research. The Net Impact of Retirees on Florida's State and Local Budgets.

One concern for policymakers should be the concentration of retirees in a local area. A high concentration may affect the ability of local governments to raise money for development projects and for schools. Despite the benefits of bringing in any people who are largely self-sufficient to an economy, if the skill level of the community's workforce does not improve through education, training, or importing companies and workers with high skill levels, the area can end up creating a substantial amount of low-paying service jobs. To combat this, and for recruitment of retirees to be effective, the area should have a well-diversified economy.

Another concern in Florida is seniors living in poverty. The share of those 65+ who live in poverty has increased in 9 out of 11 the counties for which the Census reports aging population data.



Inputs

Manufacturing

The increase in manufacturing jobs was spread over the existing percentages of manufacturing types in Florida. The mix of manufacturing jobs is detailed in Appendix 2.

Transportation and Logistics Inputs

The increase in Transportation and Logistics industry (Logistics) jobs is modeled by increasing jobs in those categories to represent the addition of a large regional logistics center that uses airfreight, a significant amount of trucking, and ground delivery using local transport. The mix of jobs added in this scenario is detailed in Appendix 2.

Retirees

Retirees are added in the model, thus they are assumed to have moved to Florida from another state or nation, and are assumed to be average-income retirees.

Results

This section shows the cumulative outputs of the model run for the 10-year period 2014 through 2023. The model estimates effects at the state level only, using statewide averages for the inputs of the three scenarios discussed. Local and economic development officials are urged to analyze the job creation and diversification effects that these scenarios would have on their local economies.

Job Creation, GDP, Personal Income, and Expected Population Increase[15]

Category	Units	Retirees	Logistics	Manufacturing
Private Non-Farm Employment	Jobs	**5,303**	**21,228**	**28,241**
Gross Domestic Product	Fixed 2005 dollars (million)	$383	$1,834	$3,831
Output	Fixed 2005 dollars (million)	$614	$3,392	$8,805
Personal Income	Current dollars (million)	$938	$1,502	$2,318
Disposable Personal Income	Current dollars (million)	$866	$1,310	$2,019
Expected Population Increase		11,289	18,652	22,020

An annual increase of 1,000 Manufacturing jobs for 10 years would create an estimated 28,241 private non-farm jobs, 10,746 of them in manufacturing, 2,907 in construction, and 2,133 in the professional, scientific, and technical services categories. This scenario would increase the state's gross domestic product by $3.831 billion and the disposable personal income of Floridians by approximately $2.02 billion.

Adding 1,000 extra Logistics jobs per year for 10 years would create approximately 21,228 new private, non-farm jobs, 10,403 of these jobs would be in transportation and warehousing and 2,162 would be in manufacturing. This scenario would increase the state domestic product by $1.834 billion and the disposable personal income of Floridians by $1.31 billion.

An extra 1,000 retirees for the next ten years would create an estimated 5,303 private, non-farm jobs, led by just over 1,000 each in Health Care and Social Assistance and Retail Trade. This is followed by just over 600 jobs in each of the Construction and Other Public Services (except Public Administration). It would increase the state domestic product by $383 million and the disposable personal income of Floridians by $866 million.

Each of the scenarios would be expected to increase the state's population. The Retirees scenario would add 11,289 people, the Logistics scenario would add 18,652, and the Manufacturing scenario would add 22,020 people, as "economic migrants" come to Florida for the increased employment opportunities.

15 Total employment is estimated to be 5,781 for the Retirees scenario; 22,613 for the Logistics scenario; and 31,613 for the Manufacturing scenario.

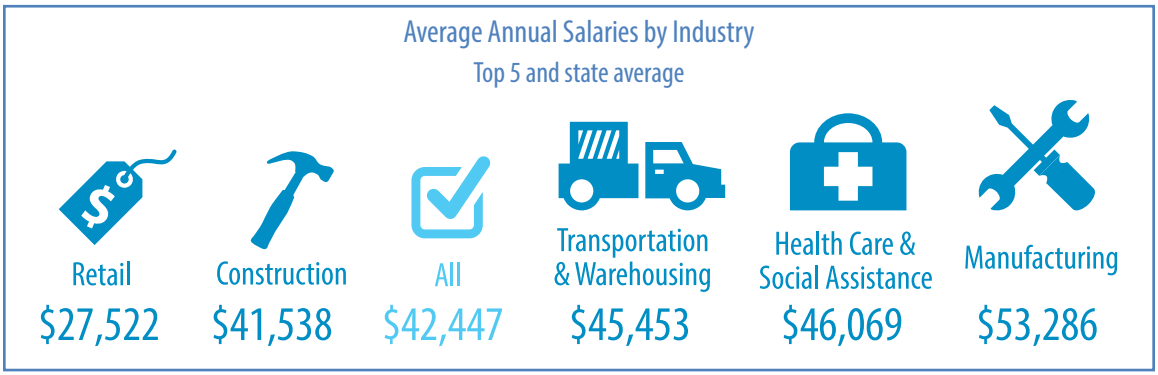
Job Creation by Industry

Top 5 Industries for Job Creation for 3 Scenarios (private, non-farm jobs)

Manufacturing		Logistics		Retirees	
Manufacturing	10,746	Transportation and Warehousing	10,403	Health Care and Social Assistance	1,044
Construction	2,907	Manufacturing	2,162	Retail Trade	1,002
Professional, Scientific and Technical services	2,133	Administrative and Waste Management Services	1,600	Construction	617
Retail Trade	2,130	Retail Trade	1,401	Other services, except Public Administration	614
Wholesale trade	1,836	Health Care and Social Assistance	1,046	Accommodation and Food Services	391

The results show why both Logistics and Manufacturing are on Enterprise Florida's Qualified Target Industry list.[16] Expanding these two important industry sectors provides wide-ranging benefits, such as producing high-wage jobs and diversifying the Florida economy, and they create substantial additional jobs because of the high amount of indirect and induced jobs created. Since they are on the Qualified Target Industry List, job creation in these sectors, along with other target industries such as Aviation & Aerospace, Cleantech, Infotech, Defense & Homeland Security, Financial/Professional Services, Corporate Headquarters, and Emerging Technologies can qualify for state incentives for new or expanding businesses through economic development programs such as the Qualified Target Industries and Capital Investment Tax Credit programs. When these industries expand in or are recruited to Florida, the state pays for 80 percent of many program incentives, and local communities pay a 20 percent local match (both in tax credits).

The average salaries of the industries for the job creation numbers are shown in the figure below.[17] One of the best-paying industries, Health Care and Social Assistance, is the top category of job creation for the Retirees scenario with an estimated 1,044 jobs created. Despite the sector leading in the Retirees scenario, the Logistics and the Manufacturing scenarios actually produce more Health Care and Social Assistance jobs, 1,046 and 1,633 respectively. Appendix 3 shows the expected job creation for each scenario for all Florida industries.



16 Logistics was added to the Qualified Target Industry List in 2011. For more information on logistics, see Florida TaxWatch, Shaping the Future of Florida Transportation & Logistics. September 2013.
17 U.S. Department of Labor Bureau of Labor Statistics, 2012.

Conclusion

Florida's local governments and economic development professionals are trusted with the responsibility of doing the best they can for their communities with the public money they are given. They have an opportunity to create jobs in their areas, yet they are often asked to make investment decisions with limited information.

Using a dynamic multi-period econometric model, Florida TaxWatch research shows that the addition of 1,000 jobs per year over ten years in the manufacturing and logistics sectors, and the addition of an extra 1,000 retirees per year over ten years will create roughly 28,000, 21,000, and 5,300 private, non-farm jobs, respectively.

These results can provide a guideline of the relative benefits of those three options, but elected officials and economic developers should have all potential projects analyzed on a local level, including the opportunity costs of their alternatives, so that the full impact of any project can be quantified.

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Appendix 1 - Percent of Population 65 and Older & 85 and Older Per County

Source: U.S. Census Bureau, 2012 Estimates

County	65+	85+	County	65+	85+
Alachua	11.5%	1.6%	Lee	24.9%	3.0%
Baker	11.9%	1.1%	Leon	10.3%	1.4%
Bay	15.5%	1.9%	Levy	21.4%	2.0%
Bradford	16.5%	2.1%	Liberty	11.2%	0.9%
Brevard	21.6%	2.9%	Madison	17.0%	2.2%
Broward	14.7%	2.4%	Manatee	24.5%	3.4%
Calhoun	16.5%	1.7%	Marion	26.8%	3.0%
Charlotte	36.0%	4.7%	Martin	28.3%	4.5%
Citrus	33.8%	4.0%	Miami-Dade	14.5%	2.0%
Clay	13.1%	1.4%	Monroe	19.0%	1.9%
Collier	28.2%	3.5%	Nassau	18.3%	1.7%
Columbia	16.3%	1.8%	Okaloosa	14.3%	1.5%
DeSoto	19.0%	2.1%	Okeechobee	16.9%	1.9%
Dixie	20.7%	1.6%	Orange	10.2%	1.3%
Duval	11.9%	1.6%	Osceola	11.9%	1.3%
Escambia	15.2%	1.9%	Palm Beach	22.1%	4.0%
Flagler	26.6%	2.9%	Pasco	21.8%	2.8%
Franklin	18.9%	1.6%	Pinellas	22.1%	3.7%
Gadsden	14.4%	1.6%	Polk	18.8%	2.2%
Gilchrist	18.3%	2.3%	Putnam	20.1%	2.3%
Glades	24.7%	1.8%	St. Johns	17.0%	2.2%
Gulf	17.1%	1.6%	St. Lucie	21.4%	2.7%
Hamilton	14.6%	1.4%	Santa Rosa	13.6%	1.2%
Hardee	13.8%	1.6%	Sarasota	32.5%	5.1%
Hendry	12.4%	1.4%	Seminole	13.3%	1.8%
Hernando	26.8%	3.5%	Sumter	49.3%	3.2%
Highlands	33.0%	4.6%	Suwannee	18.9%	2.4%
Hillsborough	12.4%	1.6%	Taylor	16.9%	1.5%
Holmes	18.0%	1.7%	Union	11.2%	0.7%
Indian River	28.6%	4.5%	Volusia	22.2%	3.2%
Jackson	16.7%	2.1%	Wakulla	12.0%	1.0%
Jefferson	18.7%	2.1%	Walton	17.5%	1.7%
Lafayette	13.7%	1.5%	Washington	16.4%	1.5%
Lake	25.2%	3.1%			

Appendix 2 - Manufacturing and Transportation/Logistics Inputs

Manufacturing Sector	Jobs
Wood product manufacturing	23
Nonmetallic mineral product manufacturing	38
Primary metal manufacturing	16
Fabricated metal product manufacturing	58
Machinery manufacturing	55
Computer and electronic product manufacturing	185
Electrical equipment and appliance manufacturing	21
Motor vehicles, bodies and trailers, and parts manufacturing	24
Other transportation equipment manufacturing	82
Furniture and related product manufacturing	16
Miscellaneous manufacturing	61
Food manufacturing	98
Beverage and tobacco product manufacturing	65
Textile mills; Textile product mills	8
Apparel manufacturing; Leather and allied product manufacturing	4
Paper manufacturing	31
Printing and related support activities	30
Petroleum and coal products manufacturing	61
Chemical manufacturing	99
Plastics and rubber product manufacturing	26
TOTAL	**1,000***

Transportation & Logistics	Jobs
Air transportation	307
Rail transportation	76
Truck transportation	343
Couriers and messengers	188
Warehousing and storage	85
TOTAL	**1,000***

* Note: The totals for both tables do not total 1,000 due to rounding each sector's value to a whole number. True values add to 1,000 for each scenario.

Appendix 3 - Output from REMI PI+ Model

(estimates through 2023 of private, non-farm jobs created)

Industry	Retirees	Logistics	Manufacturing
Forestry, Fishing, and Related Activities	3	(2)	27
Mining	2	14	276
Utilities	14	22	89
Construction	617	2,162	2,907
Manufacturing	84	221	10,746
Wholesale Trade	204	441	1,836
Retail Trade	1002	1,401	2,130
Transportation and Warehousing	43	10,403	308
Information	58	132	227
Finance and Insurance	223	371	435
Real Estate and Rental and Leasing	232	441	529
Professional, Scientific, and Technical Services	238	903	2,133
Management of Companies and Enterprises	12	17	346
Administrative and Waste Management Services	337	1,600	1,789
Educational Services	78	188	256
Health Care and Social Assistance	1044	1,046	1,633
Arts, Entertainment, and Recreation	106	176	290
Accommodation and Food Services	391	1,005	1,086
Other Services, except Public Administration	614	687	1,197
TOTAL	**5,302**	**21,228**	**28,240**

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 memberships and private grants, and does not accept government funding. Memberships 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 for the last 33 years.

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The mission of the CCF is to position Florida TaxWatch as Florida's leading public policy research organization shaping the debate on state policies and programs that affect Florida's economic growth and competitiveness. The Center's Advisory Board, comprised of distinguished and accomplished Floridians representing the private and non-profit sectors, guides the direction of the Center.

RESEARCH PROJECT TEAM

Jerry D. Parrish, Ph.D.	Director, TaxWatch-CCF	*Lead Researcher*
Jennifer Linares, M.S.	Research Analyst	
Chris Barry	Director of Publications	*Design, Layout, Publication*

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

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106 N. Bronough St., Tallahassee, FL 32301 o: 850.222.5052 f: 850.222.7476

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