

# AN EVALUATION OF ECONOMIC OPPORTUNITIES IN EXPANDED LOCAL OUTDOOR ADVERTISING

MARCH 2014

TRAFFIC  
CONTROL

Florida  
**TaxWatch**



## INTRODUCTION

Many local governments in Florida have taken advantage of the practice of selling advertising on local transit vehicles and bus shelters, similar to the recommendations made by Florida TaxWatch in multiple cost-savings reports.<sup>1</sup> One option that has yet to be explored is allowing advertising on the boxes that house traffic signal controllers.

A new company called On Street Media Florida, Inc. has developed a business plan to do exactly that, and Florida TaxWatch was asked by State Senator Jeff Brandes to review the potential economic impact of their plan as an independent, third-party evaluator. In the interest of full disclosure, On Street Media Florida CEO W. Bruce O'Donoghue is a member of the Florida TaxWatch Board of Trustees.

If these types of advertisements are allowed by the Florida Department of Transportation, local governments could use the money received to invest in infrastructure, and/or enhance economic development by helping companies expand within or relocate to Florida. Both infrastructure investments and the recruitment and expansion of companies have the potential to impact a local economy for years by helping local businesses become more competitive. This would provide jobs and increased tax revenues, which enable local governments to continue to pay for current services while keeping tax rates low for local citizens and businesses.

This report will use the estimated state and local government revenues provided to Florida TaxWatch by On Street Media Florida in order to evaluate the expected returns on investment by state and local governments.

Readers should note that Florida TaxWatch has not examined the provided income levels for their accuracy, only the estimated returns from specific investments by state and local governments, and do not support or oppose this particular vendor or product. Similar returns could be expected for most local governments and communities from other revenues of this amount, unless administration costs are substantially different than this example.

In order to evaluate a precise return on investment, this analysis estimates that income generated from these projects would be used to amortize the total cost of the economic development or infrastructure projects, not just the interest payments. Florida TaxWatch suggests that local governments tie this type of income to a specific project or economic development strategy, rather than allow these revenues to enhance the general budget of a local government.

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Cover photo: © brew127/Flickr

<sup>1</sup> See Florida TaxWatch Government Cost Savings Task Force Reports for FY2011-12, FY2012-13, FY2013-14, and Modern Management and Sensible Savings (2013); all available at <http://floridataxwatch.org/research.aspx>

## METHODOLOGY

The company that submitted the business plan for evaluation by Florida TaxWatch is On Street Media Florida, Inc. They plan to work with state and local governments, specifically the Florida Department of Transportation, to secure permission to place advertising frames on traffic signal control cabinets in Florida.

The business plan provides an assurance that there is no charge to the counties or state for installing these frames, they allow access for technicians to work on the traffic signal control cabinets without restriction, the frames do not interfere with the operation of the traffic signalization, and as a benefit, and the frames actually help insulate the traffic signal control cabinets from extreme temperatures.

Projections of the revenues to local and state government are taken from the company's provided business plan, and multipliers used for economic impact are from a recent study by the Florida Legislature's Office of Economic and Demographic Research (EDR).<sup>2</sup>

## COMPANY JOB CREATION IN FLORIDA

The jobs numbers used herein are On Street Media Florida, Inc. estimates of company jobs to be located in Florida. The company would be a startup, with 36 employees and payroll of \$2.125 million initially. When fully staffed, employment is estimated to be 140 persons, with an estimated annual payroll of \$8.345 million.

Average salary during the startup phase is estimated at just over \$59,000, with average non-executive salary estimated to be \$53,781, both substantially higher than average Florida salaries. Company projections include increases in job numbers and higher salaries for all non-sales positions. The average salary for non-executive positions moves up to \$57,978 at full employment for the company. Locating the company headquarters in Florida would have a positive impact on the state, through direct, indirect, and induced job creation.

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<sup>2</sup> Return-on-Investment for Select State Economic Development Incentive Programs. Jan. 2014. Office of Economic & Demographic Research. This paper analyzes 7 state economic development programs, using a common methodology, and calculates returns from investments with state dollars.

PROJECTED JOBS AT ON STREET MEDIA FLORIDA

JOB TYPE	BEGINNING EMPLOYMENT	MATURE EMPLOYMENT	STARTING PAYROLL	MATURE PAYROLL
Executive	4	4	\$404,000	\$460,000
Administrative	2	2	\$106,000	\$120,000
Graphics	2	5	\$90,000	\$250,000
Clerical	3	6	\$105,000	\$240,000
Sales	12	58	\$900,000	\$4,350,000
Installation	10	53	\$400,000	\$2,385,000
Field Maintenance	3	12	\$120,000	\$540,000
<b>Totals</b>	<b>36</b>	<b>140</b>	<b>\$2,125,000</b>	<b>\$8,345,000</b>

If the business is located in an average Florida county,<sup>3</sup> with \$20 million in revenue, (a midway point between the startup and expected 5-year projections revenue estimate) the indirect employment would be 27.2 jobs, and the induced would be 5.3 jobs, adding a total of 32.5 jobs to the direct company jobs. The labor income created would be \$998,929 of indirect, and \$201,536 of induced, totaling \$1.2 million.

The top industries affected by this expansion would be food services, real estate, employment, advertising, and photographic services. Doubling that sales level would further increase the indirect and induced jobs. Therefore, over the course of the first five years, this type of business would be expected to produce total jobs estimated somewhere between 170 to 200 in Florida, with a total payroll of around \$9.5 to \$10.7 million.

On Street Media Florida, Inc. expects to contract with an existing Florida company for the production of 100 prototypes that would be built in Florida. Production of additional advertising frames could be done in Florida, which would increase the economic impact substantially; however, neither of these potential production scenarios has been included in the calculations of economic benefit. Additionally, the company plans to expand into other states, which would expand the number of direct and indirect employees.

<sup>3</sup> Version 3.0 of IMPLAN was used, using Alachua County data for calculations, Alachua being a proxy for the average Florida county. Although multipliers do vary between markets in Florida, a business of this type would be expected to have reasonably similar indirect and induced job multipliers in any non-rural region of the state.

## POTENTIAL BENEFITS TO TAXPAYERS

For any government to receive the most benefits from this type of program, receipts should be invested and not spent on general budget items. By investing this revenue in programs or capital projects, the state or local community can be more competitive and create jobs for years to come. Additionally, identifying particular projects can help taxpayers associate the benefits with any perceived costs they may associate with the presence of additional signage in their area, and this association may make officials more careful in their choice of development projects.

An estimate of the potential benefits was made for the state as a whole, and for one metro area, using the company’s projected revenues. Detailed information on the metro area calculations can be found in Appendix A. The analysis shows the revenues at 90 percent of the total estimate, assuming that around 10 percent of the units would be unavailable at any one time due to maintenance or other reasons.

The company’s business plan estimates \$24,285,825 of advertising revenue for the state as a whole, beginning in 2018. Assuming that 20 percent would be paid to state and local governments, the annual payments to the state and local governments would be \$4,371,449.

This would be just less than \$2,000 per year, per frame. This amount, at current interest rates, would amortize a total of up to \$57.6 million of capitalized economic development or infrastructure improvements over a 20-year period, allowing the state to create jobs and improve the competitiveness of Florida for the future.

Using EDR multipliers for the Qualified Target Industries economic development program, the most commonly-used in Florida, shows that returns to the state could be as high as \$345.5 million using the sales figure estimate from 2018.<sup>4</sup> Of course, the returns could be less or more, depending upon progress compared to business plan estimates.

### AMORTIZED AMOUNTS AND ESTIMATED RETURNS WITH MULTIPLIERS

AMORTIZED AMOUNT	ESTIMATED RETURNS USING STATE MULTIPLIER
10 Yr - \$36.65 million	\$219.9 million
15 Yr - \$48.59 million	\$291.5 million
20 Yr - \$57.58 million	\$345.5 million

<sup>4</sup> Assumes only administration costs paid by the state and no actual cash costs

## CONCLUSION

Over the past four years, Florida TaxWatch has recommended that the Florida DOT lease space on certain state property for advertisements by private companies, in an effort to supplant the state's revenue and help maximize taxpayer value.

In the same vein, Florida TaxWatch (as a third-party, neutral evaluator) was asked by State Senator Jeff Brandes to review the business plan provided by On Street Media Florida, Inc. and estimate the potential benefits to state and local governments of selling advertising on traffic signal control cabinets. Using current estimates for borrowing costs for counties and the state of Florida, estimates were derived for the amount of infrastructure projects or economic development programs that could be amortized using the estimated revenues to Florida's governments.

On a statewide basis, these returns could support more than \$57 million in projects if amortized over a 20-year period, returning more than \$345 million in revenue to state and local governments in Florida with no cash outlays and only minor administrative costs.

The direct jobs created by this company are shown in the business plan as 36 when the company is started, growing to 140 jobs as the company matures. The total jobs, including direct company jobs, indirect, and induced jobs in Florida are estimated over the first 5 years to be approximately 170 to 200, with a total payroll of around \$9.5 to \$10.7 million. Although additional jobs created by using this income stream in infrastructure or economic development programs could be substantial depending upon the investment of this additional revenue by state and local governments, those potential jobs were not included in this analysis.

## APPENDIX A

Using the same method as above to calculate the local estimates, the revenues for the local governments in the Orlando/Orange County region would be \$883,800 per year. Although there would be some expenses of negotiating and verifying contracts on the part of the local government, they are not included in this calculation due to the variability of those expenses, and the expected small costs.

If the group of local governments used that yearly funds flow to invest in an economic development project that would benefit the local area, the returns on that project could be substantial to the community, and it could increase future tax revenues for the local governments.

Both the state and regional examples use current Treasury rates plus one percent for varying maturities as a proxy for local interest rates to calculate the size of economic development projects that could be amortized with yearly cash flow of this amount. This interest rate is a reasonable estimate of market interest rates for many municipalities in Florida, but care should be taken to note that different governments in Florida have differing bond ratings, and this would affect the calculations if the interest rates are substantially different from these assumptions. Each community considering such an action needs to calculate their benefits at their appropriate interest rate. It would not be appropriate to use taxable rates, given that these entities can borrow at non-taxable muni bond rates for their projects. This example does not include bonding costs, as these vary as to type and size of bond offering, and by firm used.

The table for the Orlando/Orange County region below shows the amounts that could be amortized at different lengths of time and different interest rates with the assumed \$883,800 per year. The reader should note that all of these type calculations are sensitive to interest rates. Any time you deal with bonds, especially amortizations over long periods of time, slight changes in the interest rate can have substantial effects in the amounts. The opportunity for local governments investing in infrastructure or economic development projects is that interest rates can be locked down for many years, giving certainty to the amounts needed for amortization. Also, although interest rates are currently low, it is unlikely that they will remain at current levels.

LOCAL INTEREST RATES AND AMORTIZED AMOUNTS FOR ORLANDO/ORANGE COUNTY

TERM	INTEREST RATE	YEARLY PAYMENT	AMORTIZED AMOUNT
10 Yr	3.61	\$119,283	\$7.41 million
15 Yr	4.2	\$89,970	\$9.82 million
20 Yr	4.5	\$75,918	\$11.64 million

Returns on these sizes of expenditures have been calculated assuming they are used for economic development projects for the area. Using the recent estimates by EDR on returns to economic development programs, the project sizes that could be amortized are modified using the multiples found for the Qualified Target Industry (QTI) projects that are used at the state level. For local governments, these same projects from the QTI program can be used, with the local government providing a 20 percent match to the project.

Although there is no specific calculation for returns to local governments in the EDR paper, there is no compelling reason to believe that returns to the local economy would be less than 20 percent of the total, and they could be even more than the returns to the state. This paper uses a conservative return on investment of 6 for the ROI for the local governments, compared to the 6.4, 6.8, and 6.9 ROI estimates found for the QTI program, depending on whether the program was used by itself or with another of Florida’s state economic development programs.

AMORTIZED AMOUNTS AND ESTIMATED RETURNS FOR ORLANDO/ORANGE COUNTY

AMORTIZED AMOUNT	ESTIMATED RETURNS USING STATE MULTIPLIER
\$7.41 million	\$44.5 million
\$9.82 million	\$58.9 million
\$11.64 million	\$69.8 million

Using the amortized amounts calculated by taking the estimated additional income to local governments from the proposed advertising, the estimated returns to local governments were calculated. This calculation shows that for this example, a local government could expect to amortize up to an \$11.64 million project. If an economic development project is invested in, and the average statewide returns are realized, this would result in an estimated return of \$69.8 million to the local governments. Other potential uses of income to the local government should be evaluated on a case-by-case basis, using locally specific costs of contracting and oversight, as well as their own opportunity costs when calculating their specific estimates of returns.



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## SENATOR JEFF BRANDES

22nd District

March 5, 2014

Dominic M. Calabro  
President & CEO  
Florida TaxWatch  
106 N. Bronough St.  
Tallahassee, Florida 32301

Dear Dominic:

I am interested in the potential economic impact of a new idea that has come to my attention regarding the generation of revenue for local governments by placing paid advertising on the boxes that house traffic signal controllers at intersections throughout Florida.

I know that this concept is consistent with past Florida TaxWatch recommendations and I would like for your organization to conduct an independent analysis of this concept to determine the economic benefits for the taxpayers of Florida.

Please let me know if your team of researchers can quantify the potential revenues that might be collected through this advertising opportunity. The results of the study would help my staff and I determine if this project is a viable option to increase revenues for communities across Florida.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Brandes", with a long horizontal flourish extending to the right.

Jeff Brandes

## REPLY TO:

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- 318 Senate Office Building, 404 South Monroe Street, Tallahassee, Florida 32399-1100 (850) 487-5022

Senate's Website: [www.flsenate.gov](http://www.flsenate.gov)

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## ABOUT THE AUTHOR



**Dr. Jerry D. Parrish is TaxWatch Chief Economist and the Director of the Center for Competitive Florida at Florida TaxWatch.**

Dr. Parrish is also an Adjunct Instructor in the Masters in Applied Economics Program at Florida State University.

He earned a Bachelor's in Agricultural Business and Economics from Auburn University, an M.B.A. from Bellarmine University, an M.S. in Economics from the University of North Carolina at Charlotte, and a Ph.D. in Economics from Auburn University. He regularly publishes articles on the Florida economy, Florida's competitiveness, Florida's property and casualty insurance system, and other economic topics of interest to Floridians.

Dr. Parrish previously served as the Associate Director of the Center for Economic Forecasting & Analysis (CEFA) at Florida State University. Prior to joining TaxWatch, he spent several years in management roles with international companies.

## 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 34 years.

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### TAXWATCH CENTER FOR COMPETITIVE FLORIDA

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.

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FOR MORE INFORMATION: [WWW.FLORIDATAXWATCH.ORG](http://WWW.FLORIDATAXWATCH.ORG)

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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.

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.

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