oppaga
Office of Program Policy Analysis & Government Accountability

December 2004 Report No. 04-83

Several Issues Important in Redesigning Business Recruitment and Expansion Tax Refund Programs

at a glance

In this information brief, OPPAGA determined that redesigning the Qualified Target Industry Tax Refund Program and the Qualified Defense Contractor Tax Refund Program as tax credit programs is feasible but raises important issues. Both programs currently require businesses to meet performance-based objectives as a prerequisite to receiving refunds on a portion of their tax payments to state or local government.

Redesigning the programs would have several implications the Legislature should consider.

- It would be important to continue to require businesses to meet job creation and other performance-related objectives.
- Legislative oversight of the programs would become more difficult as the Legislature would no longer be able to control the programs through annual appropriations. The Legislature currently appropriates funds to pay refunds to companies receiving program incentives. Credits are not subject to appropriation, although the Legislature could cap the amount of credits in statute.
- Businesses would have less flexibility since tax credits are usually restricted in application to a single type of tax.
- The administrative workload of the Department of Revenue would increase.

Scope

This project was conducted in response to a legislative request to identify issues that the Legislature should consider if it should choose to redesign the Qualified Target Industry Tax Refund Program and the Qualified Defense Contractor Tax Refund Program as tax credit programs.

Background

The Legislature has created several tax incentive programs that are intended to create jobs by attracting businesses to the state or encouraging existing Florida businesses to expand their in-state operations. Some of these incentive programs offer eligible companies tax refunds while others offer tax credits. With a tax refund incentive, an eligible company first pays its taxes and then receives a refund for a portion of its payment if it meets certain job creation objectives. With a tax credit incentive, an eligible company that meets certain job creation objectives is able to subtract the credit from its tax liabilities, thereby reducing the amount of taxes it pays to a government entity.

Two state incentive programs, the Qualified Target Industry Tax Refund (QTI) Program and the Qualified Defense Contractor Tax Refund (QDC) Program, are scheduled to expire after June 30, 2005, unless re-authorized by the Legislature. These programs allow businesses to receive refunds for portions of their tax payments if they choose to create specified numbers of high-wage jobs in designated industrial categories.

Qualified Target Industry Tax Refund Program

The QTI Program was created by the Legislature in 1994. [1] The program is intended to encourage job growth in industries that pay relatively high wages compared to state or area averages. Targeted industries are identified by the Governor's Office of Tourism, Trade and Economic Development (OTTED), in consultation with Enterprise Florida, Incorporated. These industries currently fall into seven categories: manufacturing; finance and insurance; wholesale trade; information industries; professional, scientific, and technical services; management services, and administrative and support services.

Eligibility. To be eligible to receive tax refunds under the program, a business must meet certain conditions, including

- signing a performance-based agreement with OTTED that commits the business to meet specific job creation objectives, such as creating a net increase of at least 10 new Florida jobs and paying an average annual wage of at least 115% of state, metropolitan statistical area, or local average wages; [2]
- being certified by OTTED as a qualified target industry business; and [3]
- obtaining a supporting resolution adopted by the county or municipality in which the business will locate or expand. The resolution must recommend certification and pledge a local match of 20% of the total available refund. [4]

Refund amount. In return for meeting job creation and wage objectives, approved businesses are eligible for tax refunds of $3,000 for each new full-time equivalent job created; this amount is increased to $6,000 for new jobs created in an enterprise zone or rural county. [5] Approved businesses may receive an additional $1,000 refund for each job created if those jobs pay an annual average wage of at least 150% of the average private sector wage and $2,000 if those jobs pay, on average, 200% of the average private sector wage. A business that fails to completely meet its job creation and salary objectives may still receive a prorated refund minus a 5% penalty if it creates at least 80% of the jobs, pays at least 90% of the average wage, and meets other requirements in its agreement with OTTED. Businesses that do not meet these requirements are ineligible for refunds.

Taxes eligible for refunds. Businesses may receive refunds against one or more of their sales and use, documentary stamp, emergency excise, ad valorem, corporate income, insurance premium, and intangible personal property taxes. Most of the refunds claimed since the program's inception in Fiscal Year 1996-97 have been for ad valorem, sales and use, and corporate income taxes. (See Exhibit 1.)

Exhibit 1
Most QTI Tax Refunds Claimed for Fiscal Years 1996-97 Through 2003-04, Are for Ad Valorem, Sales and Use, and Corporate Income Taxes

Ad Valorem	$ 58,344,980.54	30.6%
Sales and Use	38,655,799.06	20.2%
Corporate Income	18,741,024.79	9.8%
Documentary Stamp	4,628,049.83	2.4%
Intangible	2,699,209.06	1.4%
Insurance Premium	2,237,768.00	1.2%
Emergency Excise	7,797.00	---- [1]
Unidentified State Tax [2]	65,614,630.07	34.4%
Total	**$190,929,258.35**	**100.0%**

[1] Less than 0.1%.
[2] In some cases OTTED's data base did not provide sufficient detail to determine the type of state tax the refund was applied against. OTTED managers estimated that sales and use taxes accounted for half of the refunds in this category.

Source: Governor's Office of Tourism, Trade, and Economic Development.

[1] Chapter 94-136, *Laws of Florida.*

[2] A business's wage objectives in brownfields, enterprise zones, and rural cities and counties may be waived by OTTED at the request of the local government and Enterprise Florida, Inc.

[3] See s. 288.106, *F.S.,* for statutory requirements related to the QTI program.

[4] The local match requirement may be waived for businesses in brownfields and rural counties. However, the refund is limited to 80% of the tax refund allowed the business.

[5] Enterprise zones are economically distressed areas that local governments and OTTED target for revitalization.

Refund process. A business must submit a claim to OTTED by January 31 to receive a refund during the fiscal year that begins the following July 1. [6] OTTED pays the refund after determining that the business has paid the appropriate taxes, created the number of jobs, and paid the wages stipulated in its agreement, and that the local government's 20% match has been paid into the Economic Development Trust Fund. The refund paid the business is reduced if the local match is less than 20%. [7]

Limitations on refunds. Under QTI, a single business is eligible for a maximum refund of $5 million or $7.5 million if it is located in an enterprise zone. Also, a business cannot receive more than 25% of its total refund nor more than $1.5 million in a single fiscal year. [8] Under terms of their agreements with OTTED, most businesses are scheduled to receive refunds over a period of five to six years. Further, the state's share of total tax refund payments scheduled for all businesses (including both QTI and QDC programs) may not exceed $35 million during a fiscal year. [9] Finally, refund payments are contingent on the Legislature appropriating funds to pay for them. [10]

Number of QTI projects and amount of refunds paid. As of June 30, 2004, OTTED had 408 active QTI accounts. Since the program's inception, businesses have received $60 million in tax refunds through the program. (See Exhibit 2.) OTTED also has committed to pay an additional $153 million in refunds through Fiscal Year 2013-14, although all payments are contingent on legislative appropriations.

[6] The Legislature enacted this requirement in Ch. 2002-392, *Laws of Florida,* to provide a more accurate estimate of the dollar amount of refunds needed for each fiscal year. However, contracts executed prior to this change were not affected.

[7] The 20% local match may be waived for a project in a brownfield or a rural county. However, an applicant exercising this option cannot receive more than 80% of the total eligible refunds. A reduced local match results in proportional reductions in both the state and local government's share of the refund.

[8] A business located in an enterprise zone may receive up to $2.5 million in a single fiscal year.

[9] See s. 288.095(3)(a), *F.S.*

[10] See s. 288.106(4)(d), *F.S.*

Exhibit 2
Businesses Have Received $60 Million in QTI Tax Refunds Since the Program's Inception in 1994

Refunds	Amount	Percent
State Share	$48,002,126.46	80%
Local Share	12,000,531.61	20%
Total Paid	$60,002,658.07	100%

Source: Governor's Office of Tourism, Trade, and Economic Development.

Legislative appropriations for QTI. The Legislature annually appropriates funding for the program. OTTED estimates that it will allocate $17,625,000 from legislative appropriations to the program during Fiscal Year 2004-05. [11]

Qualified Defense Contractor Tax Refund Program

The QDC Program was created in 1993 to help protect the Florida defense industry from federal defense spending cuts. Program requirements are similar to those used in the QTI Program, with the exceptions discussed below.

Eligibility. To be eligible to receive tax refunds under QDC, businesses must

- agree to increase the net number of full-time jobs by 25% or at least 80 jobs for U.S. Department of Defense contract consolidation projects. [12] For the reuse of a defense-related facility, the requirement is at least 100 jobs; [13] the contractor must also agree to pay an average annual wage of at least 115% of the average private sector wage in the local area;
- derive at least 60% of its receipts from the U.S. Departments of Defense or Homeland Security; [14]
- be certified by OTTED after a recommendation from Enterprise Florida, Incorporated; and

[11] The Legislature appropriated a lump sum of $26.9 million for economic development tools in Fiscal Year 2004-05. This appropriation includes funding allocated for the QTI and QDC Programs.

[12] These projects consolidate a business's facilities outside the state into its facilities inside the state.

[13] A reuse facility must be located in a port. Qualified activities are limited to manufacturing, assembling, fabricating, research, development, or design of tangible personal property.

[14] See s. 288.1045, *F.S.,* for statutory requirements related to the QDC program.

- obtain a resolution adopted by the governing body in the county where the project will be located that pledges a local match of at least 20% of the total available refund. [15]

Once certified, businesses sign an agreement with OTTED specifying job creation and wage objectives.

Refund amounts and limitations. Certified businesses may receive a tax refund of up to $5,000 per job, limited to 25% of the total refund or $2.5 million in a single fiscal year. Also, a single business may receive no more than $7.5 million in total refunds under the QDC Program.

Certified businesses may receive refunds for sales and use, documentary stamp, emergency excise, ad valorem, corporate income, and intangible personal property taxes. Payments are typically scheduled over a period of five or six years.

Process for obtaining funds. Businesses must submit a claim for a QDC tax refund to OTTED by January 31 to receive a refund during the fiscal year that begins the following July 1. [16] OTTED pays the refund only after it has determined the business has met all terms of its tax refund agreement and has paid the appropriate taxes, and that the local government's 20% match has been paid into the Economic Development Trust Fund.

Number of QDC projects and allocation. As of June 30, 2004, OTTED had two active QDC accounts. OTTED estimates that it will allocate $330,000 to the program during Fiscal Year 2004-05.

[15] Projects in counties designated by the Rural Economic Development Initiative may be exempt from this requirement, but the contractor's refund is reduced to 80% of the total amount available.

[16] The Legislature enacted this requirement in Ch. 2002-392, *Laws of Florida,* to provide a more accurate estimate of the dollar amount of refunds needed for each fiscal year. However, contracts executed prior to this change were not affected.

Options

Redesigning programs is feasible, but raises policy issues

It would be feasible to modify the two programs and provide their incentives in the form of tax credits rather than tax refunds. However, our review of the programs' operations as well as similar programs administered by other states identified several policy issues the Legislature should consider in deciding whether to make this change. [17] These issues are performance accountability, legislative oversight and control, business flexibility in using incentives, and program administration.

Performance accountability

A critical issue in designing tax incentive programs is establishing strong mechanisms for ensuring that businesses achieve their job creation and employee salary objectives. The two programs currently address this issue by requiring businesses to meet performance-based objectives before receiving incentives. Businesses receive tax refunds only after OTTED determines that they have created the number of jobs and paid the wages stipulated in their written agreements.

Florida's incentive programs that provide tax credits also require businesses to demonstrate they have met specific job creation objectives. For example, businesses participating in the Enterprise Zone and Urban and Rural Jobs Tax Credit Programs must create a specified number of new jobs and must have new employees on their payrolls for at least three months before they are eligible to claim tax credits under these programs. Furthermore, businesses claiming job tax credits in enterprise zones must submit employment and salary information to local enterprise zone development agencies, which review, process, and certify the tax credit applications before they are sent to the Department of Revenue.

[17] The other states are Georgia, Indiana, Maryland, Minnesota, North Carolina, Ohio, Pennsylvania, and South Carolina.

If the Legislature redesigned the QTI and QDC programs to offer tax credits, it should continue to require businesses to meet job creation and other performance-related objectives as a prerequisite for receiving the incentives.

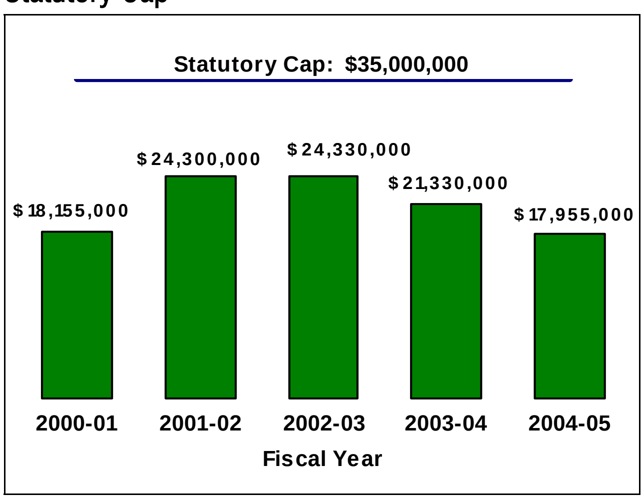
Legislative oversight and control

Another important issue in designing a tax incentive program is providing for legislative oversight and control over expenditures. The Legislature currently exercises financial control over the QTI and QDC programs by

- annually appropriating funding to the programs for paying refunds to businesses and
- setting a cap of $35 million on the two programs' combined annual expenditures.

OTTED is responsible for ensuring that this cap is not exceeded. It does this by tracking the amount of tax refunds companies are eligible to receive. OTTED will not award additional refunds if they would result in total payments exceeding the $35 million cap during a single year. As shown in Exhibit 3, annual appropriations for the programs have been consistently below this cap over the last five fiscal years. (See Exhibit 3.)

Exhibit 3
Legislative Appropriations for the QTI and QDC Programs Have Been Below the $35 Million Statutory Cap



Source: General Appropriations Acts for Fiscal Years 2000-01 through 2004-05.

If the Legislature changed the programs to offer tax credits, it would no longer exercise oversight of funding through the appropriations process. This is because tax credits used by a business to reduce the amount of taxes it pays to the state or local government are not subject to appropriation. However, the Legislature could exercise some control over program expenditures through the statutory funding cap. The Legislature could change the cap depending on whether it wanted to decrease or increase the amount of credits offered through the two programs. If the cap was changed, OTTED should continue to ensure that it was not exceeded by tracking the credits awarded to each company.

Business flexibility to use incentives

Another important issue in tax incentive programs is a business's flexibility to use the incentives to reduce tax liabilities. State and local economic development organization officials asserted that the QTI and QDC programs are attractive to businesses because they allow companies to apply their refunds against either a single tax or a combination of state and local taxes. For example, about half (20) of the 41 companies that claimed refunds under the QTI Program in Fiscal Year 2003-04 applied their refunds solely to local government ad valorem taxes while 11 companies applied their refunds to state sales and use taxes. The remaining 10 companies applied their refunds to a combination of state and local taxes, including ad valorem, sales and use, and corporate income taxes.

If the two programs were changed to offer tax credits, businesses' flexibility to use their incentives might be reduced for two reasons. First, tax credits are typically restricted in application to only a single type of tax.[18] For example, under Florida's Enterprise Zone Program, businesses that create new jobs may choose to apply their entire tax credit to one of two state taxes, the corporate income tax or the sales and use tax. Similarly, seven of the eight states we reviewed also allow companies to

[18] These restrictions arise from differences in filing and reporting requirements among various taxes.

claim credits against only one type of tax at a time. [19]

Second, businesses would not be able to apply tax credits to local ad valorem taxes. The state constitution does not authorize local governments to grant tax credits. However, counties and municipalities may be authorized by referendums of voters in their jurisdictions to grant economic development ad valorem tax exemptions to new or expanding businesses. [20] These exemptions apply only to taxes levied by the counties or municipalities granting the exemptions. In contrast, the current tax refund programs allow businesses to apply their refunds against the ad valorem taxes paid to various local government entities such as counties, municipalities, school districts, and water management districts.

If the Legislature changed QTI and QDC to tax credit programs, it may wish to consider using a mechanism similar to that used in Pennsylvania's Job Creation Tax Credit Program. Under this program, Pennsylvania provides a certificate to eligible businesses that agree to create a specified number of jobs that the businesses can use to pay various state taxes, including back taxes. Pennsylvania's Department of Revenue maintains records that track which taxes certificates are applied to and how much value each certificate retains over a five-year period. However, businesses may not use the certificates to pay local taxes.

If the Legislature established a tax credit program similar to Pennsylvania's, it would have to make state government entities responsible for performing certain activities, such as awarding tax certificates to eligible businesses, verifying that businesses meet job creation objectives, and tracking how the tax certificates are applied to various taxes. For example, the Legislature could make OTTED responsible for processing tax credit applications and verifying that a business met its job creation performance objectives, and make the Department of Revenue responsible for tracking the use of tax certificates.

Program administration

The final issue the legislature should consider in redesigning the QTI and QDC programs is administrative workload. Currently, Enterprise Florida, Inc., and OTTED administer the programs, which includes reviewing applications, developing written agreements with applicants, verifying performance, and paying refunds. [21] If the two programs were changed to offer tax credits, additional tasks would be performed by the Department of Revenue, which would increase administrative workload.

If the programs were changed to offer tax credits, Enterprise Florida, Inc., and OTTED could still perform certain administrative responsibilities, such as processing applications and verifying that businesses met their job creation objectives. However, the Florida Department of Revenue rather than OTTED would be the appropriate entity for processing business tax credit forms and supporting documentation. The department currently performs such functions for existing Florida tax credit programs, such as the Enterprise Zone and Urban Job Tax Credit programs.

Department of Revenue managers told us that the department's administrative workload would increase if the programs were changed to offer tax credits. They said if the programs were changed, the department would need to create new processes, revise its tax forms, and modify related electronic filing applications. It also would need to hire an additional accountant to manually review and reconcile the tax returns of businesses claiming these credits. [22]

[19] The states are Georgia, Indiana, Maryland, Minnesota, North Carolina, Ohio, and South Carolina

[20] Article VII, Section 3 of the Florida Constitution and Section 196.1995, *F.S.,* allow counties and municipalities to grant ad valorem tax exemptions to new and expanding businesses by ordinance after the voters in a county or municipality authorize such exemptions in a referendum. Up to 100% of the value of improvements to real or tangible personal property may be exempted from ad valorem taxes. As of April 2004, 27 counties and 20 municipalities were authorized to grant ad valorem tax exemptions.

[21] OTTED has contracted with a private company to process claims for refunds and verify that each company has created the number of jobs paying the wages stipulated in its written agreement with OTTED.

[22] This is based on the department's experience with current tax credit programs, the assumption that all tax credits would be applied to only one tax, and the department having to annually process tax credit claims filed by approximately 400 companies.

Department managers also said that the department's administrative workload would further increase if businesses were able to apply a tax credit to multiple taxes during the same tax year. The department's computer systems cannot currently separate, apply, and track the allocation of a total tax credit among several different taxes. [23] As a result, department employees would need to manually process, track, and review the application of a credit to multiple taxes. [24]

Conclusion

In summary, redesigning the QTI and QDC programs to offer tax credits instead of tax refunds is feasible. However, this change would have several implications.

- It would be important to continue to require businesses to meet job creation and other performance-related objectives as a condition for receiving incentives.
- Legislative oversight of the programs would be more difficult because the Legislature would no longer be able to control program funding through annual appropriations. Tax credits are not subject to appropriation, although the Legislature could cap the amount of annual credits in statute.
- Businesses would have less flexibility since tax credits are usually restricted in application to a single type of tax.
- The administrative workload of the Department of Revenue would likely increase.

If the Legislature wished to change the programs to offer tax credits, it could consider two options:

- limiting the tax credits to only state taxes and eliminating the required local government resolution and 20% match; or
- limiting the tax credits to only state taxes, but still require a local government to adopt a resolution recommending that a business be approved for a tax credit and provide a 20% match.

If a local government wanted to reduce a business's ad valorem tax liabilities, it could grant the business a tax exemption if authorized by a referendum of the voters in its jurisdiction.

Agency Response

In accordance with the provisions of s. 11.51(6), *Florida Statutes,* a draft of our report was submitted to the director of the Office of Tourism, Trade, and Economic Development, the executive director of the Florida Department of Revenue, and the president and CEO of Enterprise Florida, Inc. for review and response.

Their written responses have been reproduced in Appendix A.

[23] The department reports that it will be able to track tax credits among several taxes in the future as more taxes are administered under its SUNTAX System.

[24] Department managers were unable to provide us with an estimate of the total cost that would be associated with implementing this type of program.

Appendix A

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JEB BUSH
GOVERNOR

December 20, 2004

Mr. Gary VanLandingham, Interim Director
Office of Program Policy Analysis
And Government Accountability
Room 312, Claude Pepper Building
Tallahassee, Florida 32399-1475

Dear Mr. VanLandingham:

The Office of Tourism, Trade, and Economic Development (OTTED) appreciates the excellent and professional work of your staff in the preparation of the report "Several Issues Important in Redesigning Business Recruitment and Expansion Tax Refund Programs," and your consideration of our informal comments on an earlier draft of the Report. We agree with OPPAGA's analysis and conclusions that any changes in the structure of the Qualified Target Industry (QTI) and Qualified Defense Contractor (QDC) Tax Refund programs should continue to require that performance measures be met; that legislative oversight of credits would be more difficult than the current refund programs; that credits would reduce program flexibility; and that credits would increase the administrative workload.

There are two implications of the Report's conclusions with regard to program flexibility that we feel need further explanation to ensure that the implications of possible restructuring of the programs as credits are fully understood and appreciated. As economic development tools, the loss of flexibility in restructuring these programs is a critical issue.

Because the QTI and QDC programs allow a business that meets its job creation and high-wage performance requirements to receive refunds against any of the tax categories specified in statute, the incentive is neutral with regard to the business structure. Unlike so many incentives that are based on corporate tax credits, these incentives can be effectively utilized whether the target business is a corporation, a partnership, a sub-S corporation, a proprietorship, or any other type of business. If the programs were limited to a given tax, or choice between two taxes, Florida would lose the value of the program as a tool to compete for many important, high-wage, job creating business investments simply because their structure did not fit the more narrow definition of the tax credit.

Mr. Gary VanLandingham
December 20, 2004
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Even for business structures that fit the definition of the tax credit, the value of the incentive would be limited for many businesses because, while their overall tax liabilities may be quite high, their liability in any single tax category might not be great enough to allow them to recoup the entire tax credit earned. All businesses would discount the value of the incentive in their location or expansion decision making process because they would be less certain that they would be able to fully utilize the credit. As a result, the value of Florida's most important economic development tools would be undermined.

OTTED's concern is that any change in the structure of the programs should not weaken the effectiveness of these moderate, performance-based economic development tools. To do so would put Florida at a disadvantage in the highly aggressive competition for new and expanding high-wage job creating business investment.

One additional point that should be considered relates to the suggestion in the Report that the Legislature could consider eliminating the local government resolution and twenty percent local match required under the current tax refund programs, because of the difficulty of administering the local match under a tax credit program. OTTED has found that the resolution and local match requirements are critical aspects of the QTI and QDC programs, ensuring that the State does not offer incentives for business locations and expansions that are not wanted and valued by their local communities. It is highly important that economic development remain a locally driven initiative and that local governing bodies not only endorse, but actively partner in the retention, expansion, location, and creation of business investment and job creation. This helps to ensure mutual support of the project going forward, creates a checks and balances approach to incentives that reduces the state's risk of unwise investments, and leverages the State's limited resources.

Thank you for this opportunity to comment on the final draft Report and, again, thank you for the fine work of your staff and their open and cooperative approach to this review.

Sincerely,

/s/
Dr. Pamella J. Dana, Director
Office of Tourism, Trade, and Economic Development

FLORIDA
DEPARTMENT OF REVENUE

Jim Zingale
Executive Director

General Tax Administration
Child Support Enforcement
Property Tax Administration
Administrative Services
Information Services

December 13, 2004

Mr. Gary R. VanLandingham
Interim Director
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Dear Mr. VanLandingham:

This is in response to your letter of November 30, 2004, to Executive Director Jim Zingale of the Department of Revenue concerning your office's preliminary findings and conclusions report: "Several Issues Important in Redesigning Business Recruitment and Expansion Tax Refund Programs"

While we have provided technical comments informally with Darwin Gamble and Bill Howard of your staff, we felt it important to note that there may be problems for taxpayers with record keeping retention statutes if carryovers of tax credits exceed normal statutes of limitation or for our record keeping retention requirements.

Thank you for the opportunity to work with your staff in providing information for the research on this project and an opportunity to comment on your preliminary findings and conclusions. If you have any questions, please contact me at 922-4111 or Lynne Moeller in our Office of Legislative and Cabinet Services at 487-1453.

Sincerely,

Rodney Felix

Rodney Felix
Revenue Program Administrator I
Technical Assistance & Dispute Resolution

RE/lmm

cc: Darwin Gamble, OPPAGA
Bill Howard, OPPAGA
Lisa Echeverri, Deputy Executive Director
Kathy Douglas, Inspector General

Tallahassee, Florida 32399-0100

Enterprise Florida

December 15, 2004

Mr. Gary VanLandingham
Interim Director
Office of Program Policy Analysis and
Government Accountability
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Dear Mr. VanLandingham:

Thank you for sharing the preliminary findings of your office's analysis regarding the redesign of business recruitment and expansion tax refund programs. The Qualified Target Industry (QTI) and Qualified Defense Contractor (QDC) tax refunds are critical for achieving our mission of high-wage job creation in Florida and we appreciate your thoughtful consideration of issues related to a structural change in these programs.

Enterprise Florida Inc. concurs with the basic conclusions of the study that should the programs be converted to credits:

- ✓ Maintaining a performance-basis would be critical;
- ✓ Legislative oversight would be more difficult;
- ✓ Flexibility for businesses would be compromised;
- ✓ The administrative workload would likely increase.

From an economic development perspective, compromising flexibility for businesses actually means the programs would likely be rendered less effective inducements for job creation. Under the current structure, businesses receive refunds of corporate income, sales and use, ad valorem, intangible, insurance premium, documentary stamp, and other taxes paid by the company. Your report finds that "businesses would have less flexibility since tax credits are usually restricted in application to a single type of tax." This means the incentives would be meaningful to fewer businesses—largely, profitable corporations that pay state corporate income tax or businesses with significant sales tax liability. Many small and mid-sized business expansion or location projects that create high-wage jobs and pay significant ad valorem and other taxes could be lost to competitor states.

Again, we appreciate the analysis and your cooperative approach. I trust that my staff's review of the preliminary report and suggestions for minor technical correction were helpful. Please call on us if we can assist you further in this effort.

Sincerely,

Darrell Kelley

Darrell Kelley
President & CEO

The Florida Legislature

Office of Program Policy Analysis and Government Accountability

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- Performance-based program budgeting (PB^2) reports and information offer a variety of tools. Program evaluation and justification reviews assess state programs operating under performance-based program budgeting. Also offered are performance measures information and our assessments of measures.
- Florida Government Accountability Report (FGAR) is an Internet encyclopedia of Florida state government. FGAR offers concise information about state programs, policy issues, and performance.
- Best Financial Management Practices Reviews of Florida school districts. In accordance with the *Sharpening the Pencil Act*, OPPAGA and the Auditor General jointly conduct reviews to determine if a school district is using best financial management practices to help school districts meet the challenge of educating their students in a cost-efficient manner.

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Florida Monitor: www.oppaga.state.fl.us

Project supervised by Tom Roth (850/488-1024)

Project conducted by William G. Howard II (850/487-3777) and Darwin Gamble (850/487-9247)

Gary R. VanLandingham, OPPAGA Interim Director