



*OFFICE OF ECONOMIC
& DEMOGRAPHIC RESEARCH*

Analysis of Defense and Space Incentives

Defense Infrastructure Grant – Defense Reinvestment Grant Program –
Military Base Protection Program – Florida Defense Task Force Grants –
Qualified Defense Contractor and Space Flight Business Tax Refund
Program – Sales Tax Exemption for Manufacturing and Equipment Used in
Semiconductor, Defense, or Space Technology Production – Manufacturing
and Spaceport Investment Incentive Program

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EXECUTIVE SUMMARY AND COMPARATIVE ANALYSIS

Background and Purpose...

Legislation enacted in 2013 directs the Office of Economic and Demographic Research (EDR) and the Office of Program Policy Analysis and Government Accountability (OPPAGA) to analyze and evaluate 20 state economic development incentive programs on a recurring three-year schedule.¹ EDR is required to evaluate 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 as "the direct, indirect, and induced gains in state revenues as a percentage of the state's investment" – which includes "state grants, tax exemptions, tax refunds, tax credits, and other state incentives."² EDR's evaluation also requires identification of jobs created, the increase or decrease in personal income, and the impact on state Gross Domestic Product (GDP) for each program. Typically, EDR calculates a return on investment in addition to reporting the impact on the key economic variables.

In this report, the following programs are under review:

- Defense Infrastructure Grant Program - DIG;
- Defense Reinvestment Grant Program - DRG;
- Military Base Protection Grant Program - MBP;
- Florida Defense Task Force Grants - Task Force Grants;
- Qualified Defense Contractor and Space Flight Business Tax Refund Program - QDSC;
- Sales Tax Exemption for Manufacturing and Equipment Used in Semiconductor, Defense, or Space Technology Production - SDST; and
- Manufacturing and Spaceport Investment Incentive Program - MSII.

The review period covers Fiscal Years 2011-12, 2012-13, and 2013-14.

Overall Results and Conclusions...

Florida is home to 20 military installations and some of the largest defense contractors in the country. In this analysis, EDR first evaluated the economic impact of federal defense spending within the state. Next, EDR evaluated the economic impact of the specific state programs required to be reviewed.

In Federal Fiscal Year 2014, defense spending on military payroll and procurement contracts accounted for 2.2 percent of the state's Gross Domestic Product (GDP).³ For calendar year 2014, EDR found that defense spending was 2.7 percent of the state's GDP. This analysis

¹ Section 288.0001, F.S., as created by s. 1, ch. 2013-39, Laws of Florida & s. 1, ch. 2013-42, Laws of Florida.

² Section 288.005(1), F.S.

³ Defense Spending by State: Fiscal Year 2014, 3.

developed the economic impact of defense spending on Florida’s economy by using three scenarios.

- In the first scenario, payroll from defense personnel and the Department of Veterans Affairs were used to estimate the impact of compensation on Florida’s economy.
- In the second scenario, contract and grants data were used to estimate the impact of defense procurement on Florida’s economy.
- In the third scenario, both the payroll and the contracts data were used to estimate the overall impact of defense spending on Florida’s economy.

In all three scenarios, the Statewide Model was shocked by removing the defense-related spending from the state economy. As shown in Scenario Three in the table below, the removal of military payroll, grants, and procurement contracts from Florida’s economy would be a significant loss to the state in terms of revenues and jobs. However, even just the loss of military payroll, as shown in Scenario One, would have a large effect on Florida’s economy. While the scenarios were created by removing this spending, the results can equally be interpreted to represent the positive impact on the economy coming from the spending that currently occurs.

Economic Indicators		Scenario		
		One	Two	Three
Personal Income	Nominal \$ (M)	14,984.1	5,460.5	20,351.5
Real Disposable Personal Income	Fixed 2009 \$ (M)	11,535.2	4,173.4	15,640.9
Real Gross Domestic Product	Fixed 2009 \$ (M)	15,986.1	6,690.0	22,530.3
Total Employment	Jobs	93,129.0	33,679.0	126,808.0
Total State Revenues	Nominal \$ (M)	201.5	166.2	365.4

Many of the state programs under review are intended to put Florida in a better position to receive federal defense spending by helping local governments maintain or expand their military installations or by helping Florida’s defense contractors win more defense procurement contracts.

Ultimately, the placement and size of military installations and federal contracting activity in Florida is a federal decision. The scope and size of the individual state programs relative to their ability to influence federal decisions makes it unlikely that they are a key driver of the outcomes. In this regard, the critical “but for” test cannot be met for any of the programs under review, albeit for different reasons. This test, which was a key assumption in previous EDR analyses of economic development incentive programs, ensures that “but for” the state incentive, the activity would not have taken place.

- Defense: State spending on defense programs (DIG, DRG, MBP, Task Force Grants, QDSC, and SDST) cannot be deemed the primary or determining factor in the federal government’s decisions. Further, business recipients would be more influenced by federal decisions than state programs.
- Space: Spending for space programs (QDSC, SDST, MSII) cannot be deemed the primary or determining factor in the federal government’s decisions to award space flight contracts. The relatively small size of the incentives makes it likely that they have very little influence over private business contracts as well.
- MSII: Spending for this program was only \$400,878 over the review period. The likelihood that the incentive influenced any of the purchasing decisions made by the businesses is very low.

Because these state programs cannot reasonably be deemed to be the primary or determining factor in the decisions made by the federal government or the private sector, and there is no way to accurately attribute the value the state programs have in those decisions, an estimate of the economic benefit, or return on investment, associated with the individual programs is not provided in this report. As shown on the table below, the combined total of the state programs over the entire three years that were reviewed was \$32.7 million, which is only 0.15% of the state GDP attributed to defense spending in one year.

<u>Payments During State Fiscal Years</u>	
<u>2011-12 through 2013-14</u>	
Grant Programs Paid to Governments/Consulting Groups	
DIG	\$5,938,995
DRG	\$1,471,469
MBP	\$26,881
Task Force	\$4,738,612
Total	\$12,175,957
Grant/Tax Programs Paid to Businesses	
QDSC	\$1,405,227
SDST*	\$18,726,771
MSII	\$400,878
Total	\$20,532,876

** Estimated value of forgone taxes*

While it could be argued that the \$32.7 million spent by the state would produce a negative return on investment since the “but for” test has not been met, the evidence is inconclusive on both sides (for and against). To the extent that the affected businesses are more competitive

than they otherwise would be, and to the extent that federal decisions are influenced by the state's programs, there would be an unquantifiable benefit to the state. It is also possible that the state's investments contribute to the agglomeration of related businesses that has developed. These benefits cannot be quantified and attributed to the state largely because of their interaction with federal decision-making.

ECONOMIC IMPACT OF DEFENSE SPENDING

National Defense Spending...

For the past several years, the Department of Defense's Office of Economic Adjustment has produced the Defense Spending by State report.⁴ This annual report, which conforms to the federal fiscal year (October 1-September 30), shows the value of procurement contracts and the number of military personnel in each state. The latest report addressed Federal Fiscal Year 2014.

In that fiscal year, defense spending on payroll and contracts in the United States (U.S.) was \$418 billion or approximately 2.4 percent of the U.S. Gross Domestic Product (GDP).⁵ While this is a sizable amount, defense spending was actually down from 2010. The reduction of troops from Iraq and Afghanistan and constraints in the Budget Control Act of 2011 have resulted in lower levels of defense spending. Additionally, the federal sequestration of 2013 (automatic spending cuts) further reduced defense spending.

In Federal Fiscal Year 2014, the U.S. had approximately 2.7 million defense personnel.⁶ Of this total, active duty military personnel comprised 43 percent or 1.15 million; Reservist/National Guard comprised 32 percent or 861,065; and civilian defense personnel comprised the remaining 26 percent or 699,615. Total payroll for defense personnel was \$135.8 billion.

From 2012 to 2013, contract spending by the Department of Defense declined from \$320.0 billion to \$302.2 billion within the United States; in Federal Fiscal Year 2014, it further decreased to \$282.7 billion. The top contractors in the U.S. for the 2014 federal fiscal year are shown in the table below by award amount.⁷

Top Contractors	(B=Billions)
Lockheed Martin	\$30.2 B
Boeing	\$20.9 B
Raytheon	\$13.0 B
Huntington Ingalls	\$11.7 B
General Dynamics	\$11.4 B
United Technologies	\$6.1 B
L-3 Communications	\$5.9 B
BAE Systems	\$5.1 B
SAIC	\$4.2 B
Bechtel	\$4.2 B

Source: Defense Manpower Data Center and Chumara Economics & Analytics

⁴ U.S. Department of Defense, Office of Economic Adjustment, "Defense Spending by State: Fiscal Year 2014", http://www.defense.gov/Portals/1/Documents/pubs/FY2014_Defense_Spending_by_State_Report.pdf (accessed October 28, 2015).

⁵ Defense Spending by State: Fiscal Year 2014, 2.

⁶ Ibid., 8.

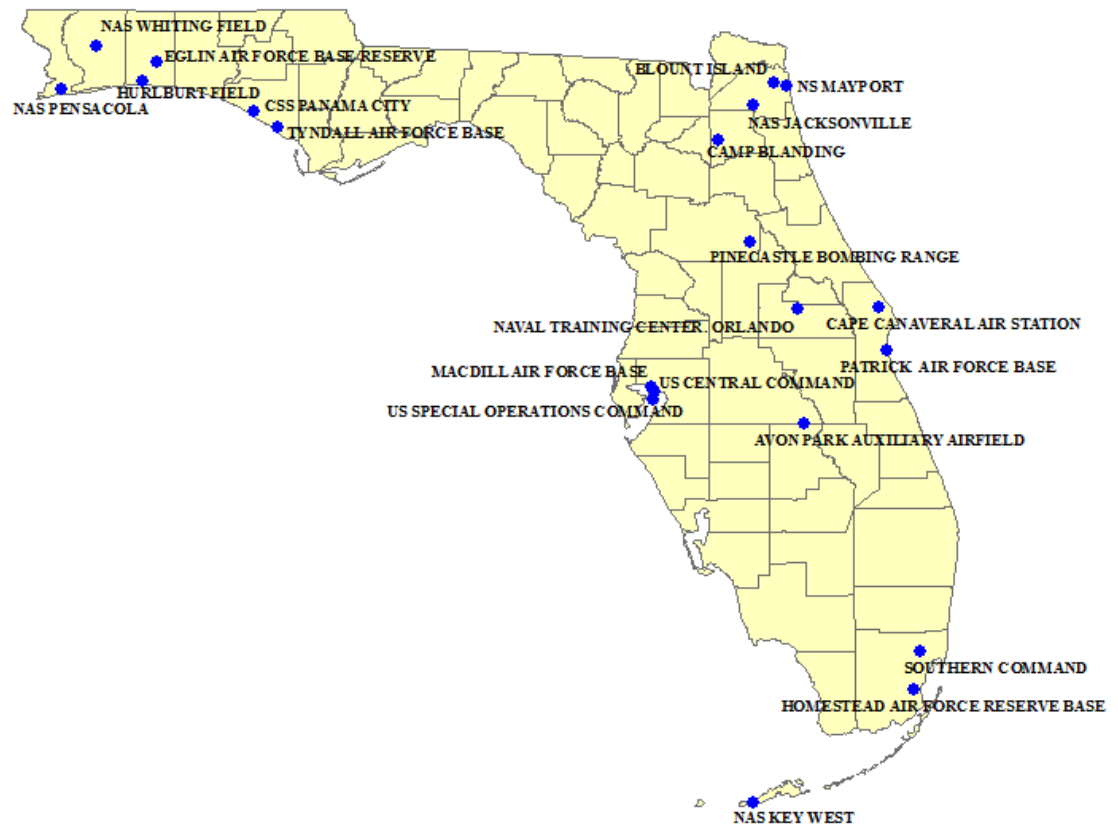
⁷ Ibid.

All of these contractors have a presence in the State of Florida. Florida ranks in the top 10 states for federal defense contracts related to supplies and equipment, service, and construction. For contracts related to research and development, Florida ranks in the top 20 states.

Florida Defense Spending...

Florida is home to 20 military installations located throughout most areas of the state. These installations belong to all branches of the military (9 Navy, 9 Air Force, 1 Marine, and 1 Army National Guard training base). Florida is also home to three U.S. Commands: the U.S. Central Command for the Middle East; the U.S. Special Operations Command for Counter-terrorism; and the U.S. Southern Command for Central and South America and the Caribbean.

Florida’s Major Military Bases and Commands



There were a reported 125,096 defense personnel in Florida in Federal Fiscal Year 2014, with a total estimated payroll of \$6.5 billion. Similar to the United States’ distribution as a whole, active duty military personnel made up 48 percent or 60,046 persons; Reservist/National Guard comprised 29 percent or 36,278; and civilian defense personnel made up the remaining 23

percent or 28,772 persons. Defense personnel were located throughout the state, but Escambia, Duval, Okaloosa, and Hillsborough counties housed more than half of the total.⁸

In Federal Fiscal Year 2014, Florida was ranked 6th in the nation in the value of its defense contract spending, coming in behind Virginia, California, Texas, Maryland, and Pennsylvania.⁹ These contracts were for work performed in four category types: supplies and equipment, research and development, construction, and service. The value of the awards in Florida was \$11.4 billion, which was up \$700 million from Federal Fiscal Year 2013. Lockheed Martin was the largest recipient of the federal procurement contracts in Florida, with awards totaling \$2 billion. Across all military branches, most of the contracts in Florida were from the Army (33 percent).¹⁰

Combining the \$6.5 billion in defense payroll and \$11.4 billion in procurement contracts, Florida received \$17.9 billion in federal defense spending, equivalent to 2.2 percent of the state’s GDP, in Federal Fiscal Year 2014. In EDR’s analysis, this percentage was even higher in calendar year 2014: 2.7 percent. As shown by the table below, Florida ranked 5th among states in total defense spending.¹¹

Top States by Total Defense Spending Federal FY 2014		
Rank	State	Defense Spending (in billions)
1	Virginia	\$54.7
2	California	\$52.5
3	Texas	\$39.6
4	Maryland	\$19.6
5	Florida	\$17.9
6	Pennsylvania	\$14.2
7	Washington	\$12.7
8	Georgia	\$12.2
9	Massachusetts	\$12.1
10	Alabama	\$11.5
Total for the Top 10 States		\$246.9
Total for the United States		\$418.4

Source: Defense Manpower Data Center and Chumara Economics & Analytics.

From an economic standpoint, the greatest value from Florida’s defense industry lies in its ability to attract federal dollars. In economics, these dollars can be characterized as a

⁸ Ibid., 18.

⁹ Ibid., 62.

¹⁰ Ibid., 8.

¹¹ Ibid., 3.

helicopter drop since they are infused into the state from an external source, causing the economy to grow.

What This Means for the State of Florida...

EDR used the Statewide Model to estimate the impact defense spending has on the Florida economy and state government revenue collections. The Statewide Model is a dynamic computable general equilibrium (CGE) model that simulates Florida's economy and government finances.¹² Among other things, it captures the indirect and induced economic activity resulting from the direct program effects, in this case – federal defense spending. This is accomplished by using large amounts of data specific to the Florida economy and fiscal structure. Mathematical equations¹³ are used to account for the relationships (linkages and interactions) between the various economic agents, as well as likely responses by businesses and households to changes in the economy.¹⁴ The model also has the ability to estimate the impact of economic changes on state revenue collections and state expenditures in order to maintain a balanced budget by fiscal year.

When the Statewide Model is deployed to evaluate economic programs, the model is shocked¹⁵ using static analysis to develop the initial or direct effects attributable to the program under review. In this analysis, the annual direct effects (shocks) of the program took the form of:

- Removal of all federal defense-related spending from the state economy.

The model was then used to estimate the additional—indirect and induced—economic effects lost from the removal of defense spending. This includes the supply-side responses to this loss, where the supply-side responses are changes in investment and labor supply arising from the shock. Indirect effects are the changes in employment, income, and output by local supplier industries that provide goods and services to support the direct economic activity. Induced effects are the changes in spending by households whose income is affected by the loss of direct and indirect activity.

All of these effects can be measured by changes (relative to the baseline) in the following outcomes:

- State government revenues and expenditures
- Jobs
- Personal income
- Florida Gross Domestic Product

¹² The statewide economic model was developed using GEMPACK software with the assistance of the Centre of Policy Studies (CoPS) at Monash University (Melbourne, Australia).

¹³ These equations represent the behavioral responses to economic stimuli – to changes in economic variables.

¹⁴ The business reactions simulate the supply-side responses to the new activity (e.g., changes in investment and labor supply).

¹⁵ In economics, a shock typically refers to an unexpected or unpredictable event that affects the economy, either positive or negative. In this regard, a shock refers to some action that affects the current equilibrium or baseline path of the economy. It can be something that affects demand, such as a shift in the export demand equation; or, it could be something that affects the price of a commodity or factor of production, such as a change in tax rates.

- Gross output
- Household consumption
- Investment
- Population

Other required measures for this report include the number of jobs created, the increase or decrease in personal income, and the impact on gross domestic product, all of which are included in the model results.

In this analysis, EDR used data from calendar year 2014. This was the most current data available and best represented the impact of the current military footprint in Florida. The analysis included Florida employment and payroll (wages, salaries, and benefits) data for active duty, and Reservist/National Guard military personnel provided by the U.S. Department of Commerce, Bureau of Economic Analysis; federal contract procurement and grants data obtained from USASpending.gov; and employment and payroll for those employed by the Department of Veterans Affairs (VA). VA employment and payroll were included since the VA serves a vital role in the preparedness, morale, and health of the military. Only civilian defense personnel were excluded.

The Statewide Model was used to determine the impact of defense spending for three basic scenarios.

- In the first scenario, payroll from defense personnel and the VA were used to estimate the impact of compensation on Florida's economy.
- In the second scenario, contract and grants data were used to estimate the impact of defense procurement on Florida's economy.
- In the third scenario, both the payroll and the contracts data were used to estimate the overall impact of defense spending on Florida's economy.

While each of the scenarios was created by removing this spending, the results can be equally interpreted to represent the positive impact on the economy arising from that spending. The results are reported here as the positives.

Defense and VA Personnel Payroll Scenario...

In the first scenario, EDR analyzed the impact of payroll (wages, salaries, and benefits) associated with those employed by the military and the VA in the State of Florida. In this case, military wages and salaries are defined as the cash wages of full-time personnel of the armed forces (including the Coast Guard), members of the Reserves and the National Guard, and

estimates of pay-in-kind received by the full-time and reserve enlisted personnel of the armed services.¹⁶

Payroll data for this analysis was reported on a calendar year basis, and for 2014, the State of Florida had \$7.2 billion in wages, salaries, and benefits attributable to military and VA personnel. The economic activity associated with the payroll generated \$201.5 million in state revenues.

As shown in the following table, defense and VA payroll generated \$11.5 billion in inflation-adjusted disposable personal income in 2014 and nearly \$16.0 billion (or 1.9 percent of the state’s total) in real gross domestic product. In total, there 93,129 jobs in the economy associated with defense spending.

Statewide Economic Model Impact of Defense and VA Payroll on the Florida Economy

		CY2014
Personal Income	Nominal \$ (M)	14,984.1
Real Disposable Personal Income	Fixed 2009 \$ (M)	11,535.2
<hr/>		
Real Gross Domestic Product	Fixed 2009 \$ (M)	15,986.1
<hr/>		
Consumption by Households and Government	Fixed 2009 \$ (M)	18,801.4
<hr/>		
Real Output	Fixed 2009 \$ (M)	16,612.5
<hr/>		
Total Employment	Jobs	93,129
<hr/>		
TOTAL STATE REVENUES	Nominal \$ (M)	201.5

Defense Contract Procurement and Grants Scenario...

In the second scenario, EDR analyzed the impact of federal contract procurements and grants associated with Department of Defense (DoD) for calendar year 2014. According to data on contracts and grants obtained from USASpending.gov, Florida had \$8.2 billion in federal payments from DoD contracts. The economic activity associated with these payments generated \$166.2 million in state revenues.

As shown in the following table, DoD contract and grants payments generated \$4.2 billion in inflation-adjusted disposable personal income in 2014 and \$6.7 billion (or 0.8 percent of the state’s total) in real gross domestic product. In total, there were 33,679 jobs in the economy associated with defense spending.

¹⁶ U.S. Department of Commerce, Bureau of Economic Analysis, “Local Area Personal Income Methodology: November 2014,” Page 11-6, <http://www.bea.gov/regional/pdf/lapi2013.pdf> (Accessed November 16, 2015).

Statewide Economic Model Impact of Defense Contract Procurement and Grants

CY2014		
Personal Income	Nominal \$ (M)	5,460.5
Real Disposable Personal Income	Fixed 2009 \$ (M)	4,173.4
Real Gross Domestic Product	Fixed 2009 \$ (M)	6,690.0
Consumption by Households and Government	Fixed 2009 \$ (M)	11,183.9
Real Output	Fixed 2009 \$ (M)	10,856.9
Total Employment	Jobs	33,679
TOTAL STATE REVENUES	Nominal \$ (M)	166.2

Defense Payroll, Contracts, and Grants Scenario...

In the third scenario, EDR analyzed the impact of both payroll (wages, salaries, and benefits) associated with those employed by the military and the VA, and payments associated with DoD contract procurements and grants for calendar year 2014. The economic activity associated with these federal payments generated \$365.4 million in state revenues.

As shown in the chart below, the combination of payroll, defense contracts, and grants payments generated \$15.6 billion in inflation-adjusted disposable personal income in 2014 and \$22.5 billion (or 2.7 percent of the state's total) in real gross domestic product. In total, there were 126,808 jobs in the economy associated in some way with defense spending.

Statewide Economic Model Impact of Defense Payroll, Contracts and Grants

CY2014		
Personal Income	Nominal \$ (M)	20,351.5
Real Disposable Personal Income	Fixed 2009 \$ (M)	15,640.9
Real Gross Domestic Product	Fixed 2009 \$ (M)	22,530.3
Consumption by Households and Government	Fixed 2009 \$ (M)	29,833.7
Real Output	Fixed 2009 \$ (M)	27,285.1
Total Employment	Jobs	126,808
TOTAL STATE REVENUES	Nominal \$ (M)	365.4

Key terms used in the preceding tables are described below:

Personal Income (Nominal \$(M)) – Income received by persons from all sources. It includes income received from participation in production as well as from government and business transfer payments. It is the sum of compensation of employees (received), supplements to wages and salaries, proprietors' income with inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj), rental income of persons with CCAdj, personal income receipts on assets, and personal current transfer receipts, less contributions for government social insurance.

Real Disposable Personal Income (Fixed 2009 \$(M)) – Total after-tax income received by persons; it is the income available to persons for spending or saving.

Real Gross Domestic Product (Fixed 2009 \$(M)) – A measurement of the state's output; it is the sum of value added from all industries in the state. GDP by state is the state counterpart to the Nation's gross domestic product.

Consumption by Households and Government (Fixed 2009 \$(M)) – The goods and services purchased by persons plus expenditures by governments consisting of compensation of general government employees, consumption of fixed capital (CFC), and intermediate purchases of goods and services less sales to other sectors and own-account production of structures and software. It excludes current transactions of government enterprises, interest paid or received by government, and subsidies.

Real Output (Fixed 2009 \$(M)) – Consists of sales, or receipts, and other operating income, plus commodity taxes and changes in inventories.

Total Employment (Jobs) – This comprises estimates of the number of jobs, full time plus part time, by place of work. Full time and part time jobs are counted at equal weight. Employees, sole proprietors, and active partners are included, but unpaid family workers and volunteers are not included.

Total State Revenues (Nominal\$(M)) – Consists of the total tax and fee collections across all revenue sources.

DESCRIPTION OF THE DATA FOR STATE PROGRAMS

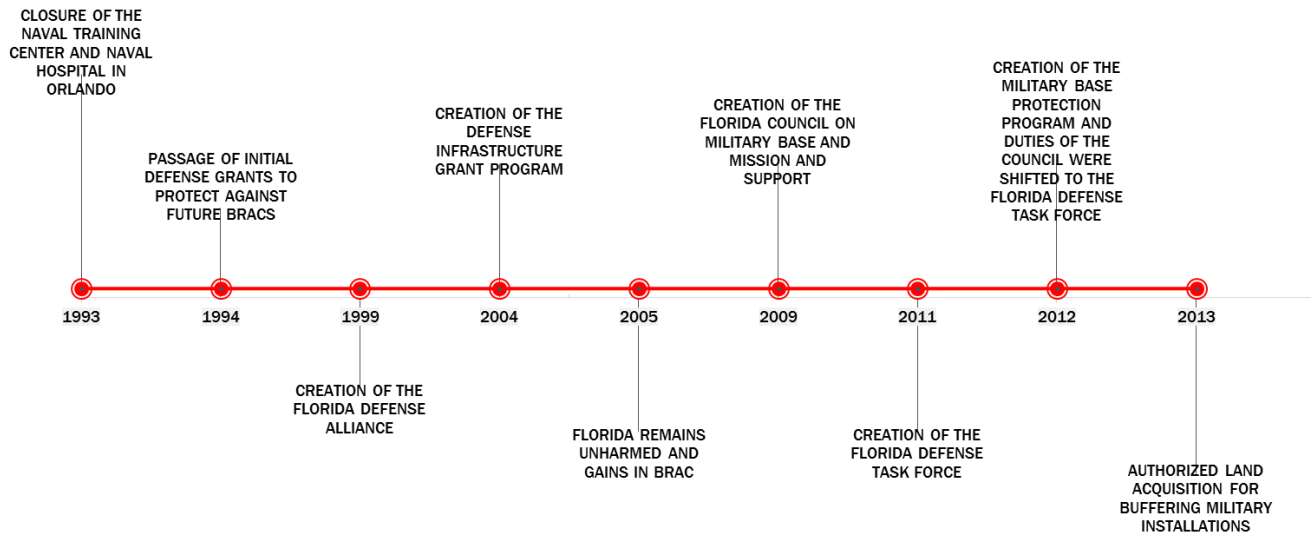
Data Source and Development of the Universe...

The affected agencies were instructed to provide EDR with information for each entity or project which received state dollars (via grant, exemption, credit, or refund) during the three-year review period (State Fiscal Years 2011-12, 2012-13, and 2013-14). Collectively, these projects comprised the universe for each program under review. Awards or tax breaks during the period were adjusted by any subsequent incentive repayments or amended tax returns for purposes of the analysis.

Enterprise Florida, Inc. (EFI) is the primary source of project information for the military grant programs under review. The Department of Economic Opportunity (DEO) is the primary source of project information for economic development incentives awarded to businesses, except for projects receiving the Sales Tax Exemption for Manufacturing and Equipment Used in Semiconductor, Defense or Space Technology Production or the Manufacturing and Spaceport Investment Incentive. For those two programs, the primary source of information was internal files from the Department of Revenue (DOR). The analysis assumed that all data provided by EFI, DEO, and DOR related to projects was complete and accurate. The data was not independently audited or verified by EDR; however, data discrepancies were addressed.

When available, submitted information included the amount and timing of incentive(s) distributed to the government entity or business; the amount and timing of direct capital expenditures for the project; and the number of direct jobs and associated average wages. Only data related to the three-year review period was considered in the evaluation.

THE MILITARY BASE PROTECTION PROGRAM



History...

In 1993, the Naval Training Center (NTC) and the Naval Hospital in Orlando, Florida, were closed as a result of recommendations made by the Base Realignment and Closure (BRAC) Commission. The BRAC Commission is an independent federal commission. It is charged with providing an objective, non-partisan, and independent review and analysis of bases and military installations that the Department of Defense has recommended for closure or realignment to gain efficiencies in the U.S. Military. The BRAC Commission has met six times since 1988, most recently in 2005.

During the 1993 BRAC, both the NTC Orlando and the NTC San Diego were slated for closure due to the Navy's excess capacity for training functions. It was estimated that the Navy had two to three times the needed training capacity. The Secretary of Defense stated that there were greater economic efficiencies to be gained by consolidating training functions at the NTC in Great Lakes, Illinois.¹⁷ The BRAC Commission agreed with the Secretary of Defense and recommended the closure of both naval training centers. As a result of the closure of NTC Orlando, the Commission also recommended the closure of the Naval Hospital in Orlando due to the reduced active duty personnel, leaving a number smaller than that needed to sustain operation of the hospital.¹⁸ It should be noted that the NTC Orlando was also slated for closure as part of the 1991 BRAC.

As a result of the closure of the NTC and Naval Hospital in Orlando, the Florida Legislature created several grant programs to support Florida's military installations and to help shield

¹⁷ Department of Defense, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, "Defense Base Closure and Realignment Commission: 1993 Report to the President," Pages 1-37 & 38, <http://www.acq.osd.mil/brac/Downloads/Prior%20BRAC%20Rounds/1993com2.pdf> (Accessed November 2, 2015).

¹⁸ Defense Base Closure and Realignment Commission: 1993 Report to the President, Pages 1-66 & 68.

them from the adverse effects of federal base realignment and closure actions. These grants have been in existence since 1994. Whether administered through the former Florida Department of Commerce; the former Office of Tourism, Trade, and Economic Development (OTTED); or the current Department of Economic Opportunity, grants have continued to exist, although the specific guidelines have varied. Some of these programs included the Defense-Related Business Adjustment Program, the Florida Defense Planning Grant Program, the Florida Defense Implementation Grant Program, the Florida Military Reuse Planning and Marketing Grant Program, and the Retention of Military Installation Program.

The Legislature, recognizing that the state needed a coordinated effort to retain the remaining military installations in the state, created the Florida Defense Alliance in 1999. The Alliance, an organization within EFI, was created to ensure that Florida, its resident military bases and missions, and its military host communities were in competitive positions as the U.S. continued to realign and downsize its defense activities.

Today...

The Department of Economic Opportunity's Military Base Protection Program consists of activities and strategies intended to preserve or expand the U.S. military base presence throughout the state, or to mitigate the impact to the local economy should bases be realigned or closed. The program is administered by contract with EFI, who is advised by the Florida Defense Alliance working in tandem with the Florida Defense Support Task Force (Task Force).

EFI distributes funds to local communities through the Florida Defense Infrastructure Grant Program, the Defense Reinvestment Grant Program, and the Military Base Protection Program itself. The Task Force, which is staffed by EFI, also distributes grants to local communities for similar purposes and contracts for advocacy in Washington, D.C.

Additionally, legislation in 2013 authorized the Department to recommend a list of non-conservation lands for the Board of Trustees of the Internal Improvement Trust Fund "to acquire, subject to a specific appropriation ... for the purpose of buffering a military installation against encroachment..." The Board of Trustees must consider the recommendations of the Task Force when evaluating the Department's recommendations.

Analysis...

An estimate of the economic benefit, or return on investment, associated with the individual defense programs is not provided in this report. As indicated previously, the "but for" test cannot reasonably be met for any of the state programs under review because the scope and size of the programs makes it unlikely that they are the primary or determining factor in the federal government's decisions. Without the attestation that "but for" the state's investment the outcome would be different, there is no way to calculate the state's return. The programs may meet other policy and societal objectives, but those are not a focus of this report.

Grant Program Descriptions and Findings...

None of the four military grant programs exceeded \$5 million in appropriations in any one year, and the amounts disbursed in a given fiscal year were sometimes unrelated to that year’s appropriations. In total, the programs were appropriated a total of \$18.7 million; however, only \$12.2 million was spent during the review period. The chart below shows the appropriation for each grant by state fiscal year.

Grant Program	Appropriations by State Fiscal Year		
	2011-12	2012-13	2013-14
Defense Infrastructure Grant	\$1,581,245	\$1,581,245	\$1,600,000
Defense Reinvestment Grant	\$850,000	\$850,000	\$850,000
Military Base Protection Grant	\$150,000	\$150,000	\$150,000
Florida Defense Task Force Grants	\$5,000,000	\$2,000,000	\$4,000,000
Total	\$7,581,245	\$4,581,245	\$6,600,000
Total for All Three Years			\$18,762,490

Defense Infrastructure Grant Program...

In 2004, the Legislature created the Defense Infrastructure Grant Program (DIG) in order to support local infrastructure projects deemed to have a positive impact on the military value of installations within the state. Funds are to be used for projects that benefit both the local community and the military installation. Applications are accepted from the governing board of the county, municipality, special district, or state agency that will maintain the project upon completion. In 2014, EFI imposed a \$300,000 cap on the amount of the grant and allowed only one application per military installation. Statutorily, the Defense Infrastructure Grant states that EFI may require a 30 percent local match. EFI typically does not require the match, even though it treats the match favorably when it exists.

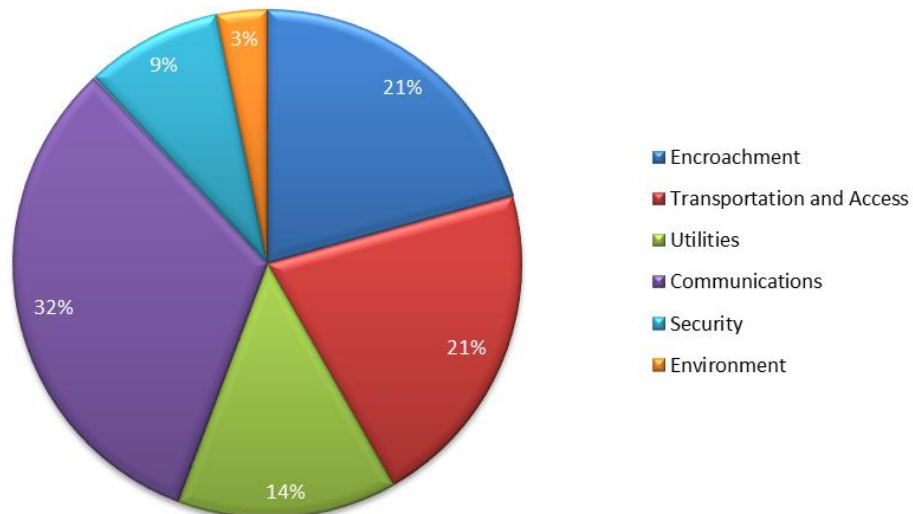
During State Fiscal Years 2011-12 through 2013-14, Enterprise Florida paid out approximately \$5.9 million to 28 grant recipients. These grants were awarded as early as State Fiscal Year 2004-05 and as recently as State Fiscal Year 2012-13, causing a misalignment between the initial appropriation and the payment.

Payment by State Fiscal Year			
2011-12	2012-13	2013-14	Total
\$2,410,159	\$2,852,241	\$676,595	\$5,938,995

The Defense Infrastructure Grant provides support for local infrastructure projects that address one or more of seven designated issues: encroachment, transportation and access, utilities, communications, housing, environment, and security. While these issues are designated in statute, the grant is not limited to these issues alone. In 2012, the grant also included construction, land purchases, and easements.

As shown in the chart below, during the review period 32 percent of DIG dollars were spent on communications related projects. This was the largest use of funds. Projects related to encroachment and transportation and access each received 21 percent, while remaining areas each received 14 percent or less of the grant dollars.

Defense Infrastructure Grant Spending by Type



Examples of projects receiving funding by type of use are as follows:

Encroachment: creation of a buffer zone around bases

Transportation and Access: roadway repairs, upgrade of roadway leading from Air Force Range, construction of an acceleration lane and reconfiguration of sidewalks at military gate

Utilities: replacement of a water main system, extension of a water reuse pipe

Communications: construction of a cellular tower for service military camp, establishment of the Lambda Rail program, installation of a fiber optic network, replacement of pull-boxes on parkway with concrete boxes

Security: creation of an Emergency Operations Situational Awareness Suite at military camp

Environment: performance of a noise study for Air Force Range, performance of an environmental study at launch complex

Defense Reinvestment Grant Program...

In 2012, the Defense Reinvestment Grant Program (DRG) was established to replace some of the early defense-related grant programs. The DRG’s purpose is to help defense-dependent communities develop strategies that would help the community protect its existing military installations. The grant is also available to help transform the economy of a defense-dependent community to a nondefense economy. Eligible applicants include cities, counties, Chambers of Commerce, or an economic development entity where the military installation is located. Grants are one year in duration and are capped at \$125,000 per application. A 30 percent match is required by the local community, and the base commander for the military installation must attest that the project under consideration is outside of the base’s property line. The DRG is a competitive grant program, and the awards are made by former military personnel. Activities funded can include studies, presentations, analyses, plans, marketing, modeling, and reasonable travel costs.

During State Fiscal Years 2011-12 through 2013-14, EFI paid out approximately \$1.5 million to 22 grant recipients. These grants were all awarded in the review period.

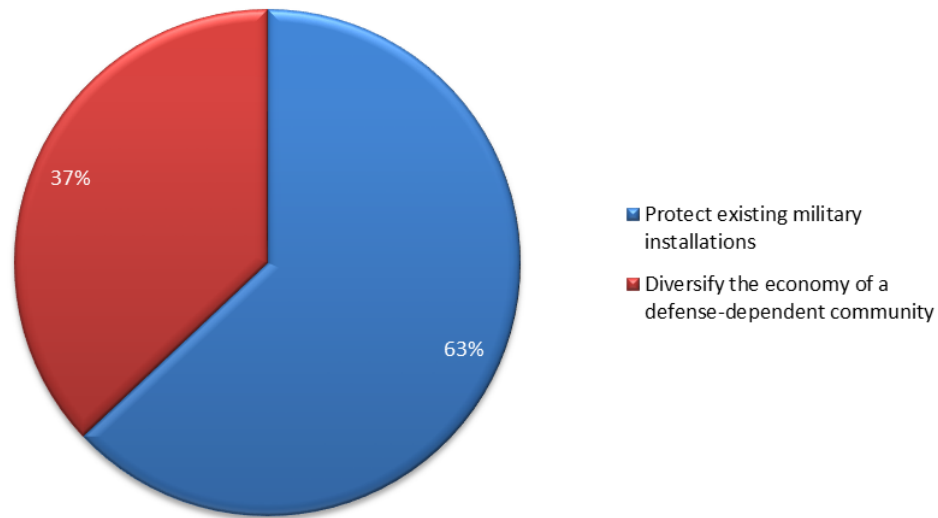
Payments by State Fiscal Year			
2011-12	2012-13	2013-14	Total
\$104,807	\$769,739	\$596,923	\$1,471,469

The Defense Reinvestment Grant provides support for community based activities that address one of three designated issues: protection of military installations, diversification of a defense-dependent community; or the development of plans for the reuse of a closed or realigned military installation.

As shown in the following graph, during the review period 63 percent of DRG dollars were spent on projects related to the protection of existing military installations. Projects related to the diversification of a defense-dependent community comprised the remaining 37 percent. No funds were expended for projects to develop plans for the reuse of a closed or realigned military installation. This is expected as there has not been a military installation closure in Florida since 1993.

[SEE GRAPH ON FOLLOWING PAGE]

Defense Reinvestment Grant Spending by Type



Examples of projects receiving funding by type of use are as follows:

Protecting existing military installations: development of an economic impact analysis for county and the Air Force Range, assistance for the Miami-Dade Defense Alliance which supports local military related industries, community advocacy, completion of a Military Transformation Strategy

Diversify the economy of a defense-dependent community: funding for a county Chamber of Commerce, development of a countywide strategic plan to attract target industries, support for a county economic development council

Develop plans for the reuse of a closed or realigned military installation: during the review period, no grants were awarded for this purpose

Military Base Protection Grant Program...

In 2012, the Legislature created the Military Base Protection Program. The program has two purposes: to provide funding to defense-dependent communities to secure non-conservation lands to serve as a buffer against encroachment for military installations, and to support local community efforts to engage in service partnerships with military installations. The program also has the discretion to award grants that help address emergent needs relating to mission sustainment, encroachment reduction or prevention, and base retention.

Since its inception, this program has granted awards to four recipients, with only three recipients receiving payment during the review period.

Payments by State Fiscal Year			
2011-12	2012-13	2013-14	Total
\$2,000	\$18,701	\$6,181	\$26,881

The three grant recipients receiving payment were all awarded for the purpose of addressing emergent needs relating to mission sustainment. Examples of the types of projects receiving funding were financial assistance to the economic development council’s Innovation Center and retention of a Military Sustainability Partnership Coordinator.

Florida Defense Task Force Grants...

In 2009, the Legislature created the Florida Council on Military Base and Mission Support. The council was charged with providing oversight and direction for initiatives, claims, and actions taken on behalf of the state, its agencies, and political subdivisions. In 2012, the duties of the Florida Council on Military Base and Mission Support were transferred to the Florida Defense Task Force, which was created in law in 2011. The Task Force was charged with making recommendations for preparing the state to effectively compete in any federal base realignment and closure action, for supporting the state’s position in research and development related to or arising out of military missions and contracting, and for improving the state’s military friendly environment for service members, military dependents, military retirees, and businesses that bring military and base-related jobs to the state.

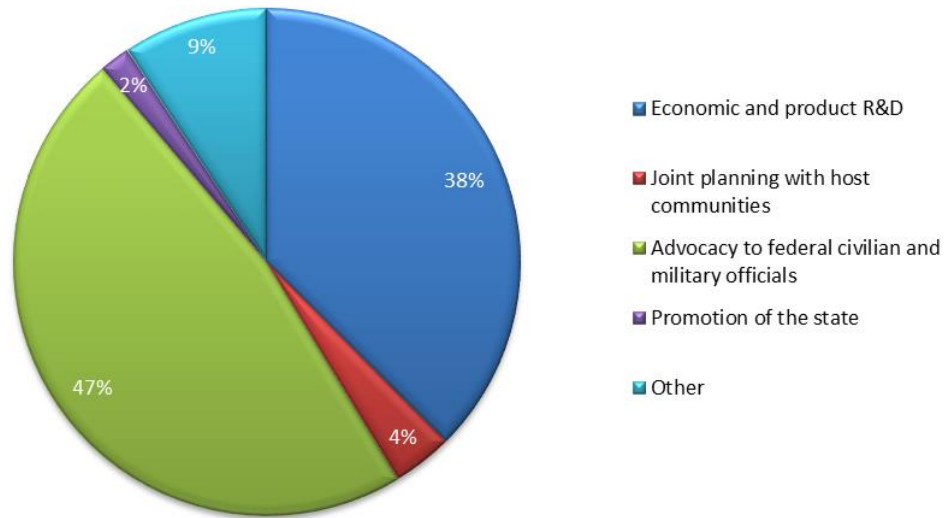
Grants administered by the Task Force do not require matching funds, and there are no imposed caps. Grant applications must be sponsored by a Task Force member, and the Task Force is responsible for deciding grant awards.

During State Fiscal Years 2011-12 through 2013-14, Enterprise Florida paid out approximately \$4.7 million to 13 grant recipients. These grants were all awarded in the review period.

Payments by State Fiscal Year			
2011-12	2012-13	2013-14	Total
\$1,016,000	\$1,959,491	\$1,763,121	\$4,738,612

Task Force grants provide support for local infrastructure projects that address one or more of six designated issues: economic and product research and development, joint planning with host communities to accommodate military missions and prevent base encroachment, advocacy on the state’s behalf to federal civilian and military officials, assistance to school districts in providing a smooth transition for large numbers of additional military-related students, job training and placement for military spouses in communities with large shares of active duty military personnel, or promotion of the state to military and related contractors and employers. While these issues are designated in statute, the grant is not limited to these issues alone.

Defense Task Force Spending by Type



As shown in the chart above, the largest portion of Task Force grant funds were directed towards advocacy (47 percent) for Florida’s military installations in Washington, D.C., and for research and analysis (38 percent) related to Florida’s military missions and installations.

Examples of projects receiving funding by type of use are as follows:

Economic and product research and development: creation of the Defense Task Force strategic plan, development of a military installation Strengths Weaknesses Opportunities Threats (SWOT) Analysis, performance of a study on the economic impact of Florida’s defense industry

Joint planning with host communities to accommodate military missions and prevent base encroachment: acquisition of conservation easements on privately held land adjacent to Air Force Range, construction of a fence to protect Naval Air Station

Advocacy on the state’s behalf to federal civilian and military officials: funding a contract with the Principi Group to advocate in Washington, D.C., for Florida’s military missions and installations

Assistance to school districts in providing a smooth transition for large numbers of additional military related students: during the review period, no grants were awarded for this purpose

Job training and placement for military spouses in communities with large shares of active duty military personnel: during the review period, no grants were awarded for this purpose

Promotion of the state to military and related contractors and employers: education and dissemination of information related to marketing, business, and federal

contracting strategies such as the Small Business Defense and Veteran Initiative Program

Other: establishment of a local defense community organization, creation of a threat mitigation plan to reduce risk of realignment or closure, support for wounded service personnel to return to active duty

Conclusions...

At this time, it is hard to draw conclusions about the cost-effectiveness of Florida's military grant programs. Since there has not been a formal BRAC since 2005, there is no way to know if the actions the state and local governments are taking will make a material difference in a future BRAC outcome. Florida has received guidance through its contract with the Principi Group that the BRAC Commission and the military look favorably on communities that partner with military installations to help reduce operating costs of the individual installations. Some Florida military communities are already undertaking such endeavors. One such example is the collaboration between Okaloosa County and Eglin Air Force Base to make infrastructure improvements, which is part of the tri-county growth management plan resulting from the 2005 BRAC Commission realignments. The improvements will include a new and improved waste water treatment plant, a joint fiber optic network, a new telephone cable along Highway 98, new Cox Communications cable, and new cellular towers.¹⁹

It is important to note that the four grant programs may not accomplish their intended effects given their relatively small size, both across the programs in total and per individual program. As a percentage of the state's economic benefit from total defense spending in Federal Fiscal Year 2014, the entire \$12.2 million paid out during the three years of the review period would only equate to 0.05% of the state's GDP benefit in one year. Limiting the comparison to the economic benefit from just the defense and VA payroll, it would equate to 0.08% of the state's GDP benefit.

¹⁹ Economic Development Council of Okaloosa County, "Infrastructure," (Accessed November 11, 2015) <http://www.florida-edc.org/business-info/infrastructure.aspx>).

QUALIFIED DEFENSE CONTRACTOR AND SPACE FLIGHT BUSINESS TAX REFUND PROGRAM

Program Description...

The Qualified Defense Contractor and Space Flight Business Tax Refund Program (QDSC) was established in 1996 to encourage the creation and/or retention of high-wage jobs (defined as 115 percent or more of the area or statewide annual wage) in the defense and space industries. Incentive awards range from \$3,000 to \$8,000 per job.²⁰ Unless waived by DEO, 20 percent of the award must be provided by the city or county government in which the project is located. The QDSC program expired July 1, 2014.

The QDSC program was a performance-based incentive tied directly to defense or space flight business contracts. Businesses qualified for the program in three ways: (1) contract or subcontract consolidations that resulted in either a 25 percent increase in employment or at least 80 new Florida jobs; (2) defense production conversion projects that resulted in a net increase in nondefense employment at the applicant’s facilities in Florida; or (3) reuse projects that resulted in the creation of at least 100 jobs for contracts with a duration of two or more years.

The QDSC program was a grant program subject to annual appropriation, with the grant award determined by the interaction between the number of qualifying employees, geographic location of the jobs, and certain taxes paid to both state and local governments. Each QDSC project had a performance-based contract, which outlined specific milestones that must be achieved and verified by the state prior to payment of funds.

QDSC Per-Job Award Thresholds

		Eligible Award	State Liability
Base award with minimum wage criteria, or	\$	3,000	2,400
Base award if located in a Rural County or Enterprise Zone	\$	6,000	4,800
If wage is 150% of average annual wage, or	+	1,000	800
If wage is 200% of average annual wage	+	2,000	1,600
Maximum per-job award possible	\$	8,000	6,400
Maximum award per-business, per year	\$		2,500,000
Maximum award per-business, lifetime			uncapped as of 2013

²⁰ Section 288.1045, F.S. The per-job award increases from the \$3,000 base when wages exceed 150 percent of the area or statewide annual wage, and when projects are located in specified locations. These included a rural county, an Enterprise Zone, or until 6/30/14, in any of the eight counties that were disproportionately affected by the BP Gulf Oil Spill: Bay, Escambia, Franklin, Gulf, Okaloosa, Santa Rosa, Walton and Wakulla Counties. From 7/1/11 through 6/30/14, DEO could waive wage or local financial support eligibility requirements for Disproportionately Affected Counties.

Analysis...

Similar to the Military Base Protection Program analysis, an estimate of the economic benefit or return on investment for the QDSC program is not provided. The “but for” test cannot reasonably be met because the state incentive cannot be deemed the primary or determining factor in the federal government’s or private business’ decision to engage in a defense or space flight contract. In regard to the QDSC program, this assertion fails because the businesses engaged in applying for the incentive are not making job creation or retention decisions based solely on the award of the incentive. These businesses are engaged in bidding for a variety of federal and/ or private procurement contracts, and this bidding likely would not cease if the incentive was not offered. In this regard, businesses are still engaged in bidding for federal contracts even though the QDSC program expired in 2014. While the QDSC award reduces a business’ operating costs and allows for a more competitive bid, it is likely the incentive is paying for jobs that would have been created or retained in the state anyway.

For businesses engaged in competing for private space flight contracts, other incentives offered by Space Florida such as special conduit financing, conduit construction, and infrastructure improvements may be more important to the business than incentives in the traditional economic development tool kit. Additionally, these businesses may pay relatively little in the eligible taxes, and this amount partially conditions the size of the award.

Findings...

During the review period, six projects received a payment from the QDSC program. Two of the projects also received funds from the Brownfield Incentive Program and the Sales Tax Exemption for Manufacturing and Equipment Used in Semiconductor, Defense, or Space Technology Production offered by the state. The table below shows the industry composition of the six projects that received payments during the review period.

Qualified Defense and Space Contractor Tax Refund Statistics

Total Number of QDSC Projects 6

Industry Composition

NAICS Code	NAICS Description
334220	Radio and Television Broadcasting and Wireless Communications Equipment Manufacturing
336414	Guided Missile and Space Vehicle Manufacturing
332999	All Other Miscellaneous Fabricated Metal Product Manufacturing
335999	All Other Miscellaneous Electrical Equipment and Component Manufacturing
333319	Other Commercial and Service Industry Machinery Manufacturing
334419	Other Electronic Component Manufacturing

As shown in the following table, actual QDSC payments totaled \$1.4 million, which is slightly less than the anticipated state payment of nearly \$1.9 million.

QDSC INCENTIVE PROJECTS	2011-12	2012-13	2013-14	Total
Anticipated State Payments in the Review Period	\$ 243,600	\$ 564,560	\$ 1,052,846	\$ 1,861,006
Actual State Payments in the Review Period	\$ 243,600	\$ 538,427	\$ 623,200	\$ 1,405,227
Anticipated New and Retained Jobs by Year	407	989	1,584	
Actual New and Retained Jobs by Year	460	1,405	1,359	
Average Annual Wage of Projects	\$ 73,811	\$ 62,036	\$ 56,113	
Statewide Average Annual Wage	\$ 41,376	\$ 42,446	\$ 42,904	
Percentage of Statewide Average Annual Wage	178.4%	146.2%	130.8%	

The QDSC program allows for the payment of both new and retained project jobs. New job creation is not a requirement for the program, and businesses may qualify for the program on job retention alone. Under the QDSC program, companies are required to have all new or retained jobs in place by December 31st of the calendar year and are paid for achieving that goal in the following state fiscal year.

During the review period, the six QDSC projects were anticipated to create and/or retain jobs in accordance with the chart below. Retained jobs make up the largest portion of expected jobs in any calendar year.

Expected New and Retained Jobs as of December 31

<u>Calendar Year</u>	<u>New</u>	<u>Retained</u>	<u>Total</u>
2010	30	337	407
2011	213	776	989
2012	50	1,534	1,584

Not unlike other incentive programs in Florida, the QDSC program is “pay for performance,” which means the state only pays for jobs that are specified in the contract and actually created or retained by the business. Businesses that fail to perform and do not create or retain the specified jobs do not receive payments. Moreover, additional incentive dollars are not paid to businesses for jobs the business creates above and beyond its contractual obligations. In these cases, the state is receiving a windfall of job creation for which it is not obligated to pay. This benefited the state in State Fiscal Years 2011-12 and 2012-13 when program participants created and/or retained more jobs than anticipated. Job creation/retention associated with calendar years 2010 and 2011 exceeded anticipated jobs by 13.0 percent and 42.1 percent, respectively. In calendar year 2012, however, participants only met 85.8 percent of their anticipated job creation/retention goals. In fact, the level of job creation and/or retention was down 3.3 percent from calendar year 2011.

Actual New and Retained Jobs as of December 31

<u>Calendar Year</u>	<u>New</u>	<u>Retained</u>	<u>Total</u>	<u>Fiscal Year for Payment</u>
2010	79	381	460	2011-12
2011	359	1,041	1,405	2012-13
2012	0	1,359	1,359	2013-14

The QDSC program was designed to attract high wage jobs. The statute required that the average annual wage commitment of businesses participating in the program be at least 115 percent of the average annual wage in the state, county, or Metropolitan Statistical Area in which the business is located. This wage commitment is exclusive of any benefits such as health insurance or 401K contributions. The average annual wage for the State of Florida was approximately \$42,000 during calendar years 2011 to 2013. A review of wages for the projects included in the analysis showed that the actual wages of the QDSC projects were greater than 115 percent of the average annual wage in the state. In fact, in most years, the projects under review had wages higher than 130 percent of the statewide average annual wage. Higher than average wages leads to higher output associated with the projects which, in turn, generates more revenue for the state of Florida.

Conclusions...

It is important to note that the success of the QDSC projects is tied directly to federal defense procurement spending. If the federal government reduces spending for defense contracts, then the companies charged with fulfilling the contracts will have a reduced need for jobs at their facilities. As discussed earlier and shown in the chart below, the value of defense contract awards performed in Florida was in decline during the review period.

Value of Contract Awards Performed (Billions)			
Federal FY October 1 - September 30			
2010	2011	2012	2013
\$13.7	\$12.7	\$12.2	\$10.7

SALES TAX EXEMPTION FOR MACHINERY AND EQUIPMENT USED IN SEMICONDUCTOR, DEFENSE, OR SPACE TECHNOLOGY PRODUCTION

The Sales Tax Exemption for Machinery and Equipment Used in Semiconductor, Defense, or Space Technology Production (SDST) was first created in 1997. At the time it was put into law,²¹ the exemption only included silicon technology production and research and development. In 2000, the law was amended²² to remove references to silicon technology, and to add semiconductor, defense, or space technology production and research and development to the exemption. Research and development was removed from this part of the statute in 2006.²³ The present day exemption is for the purchase of machinery and equipment used in the production processes of businesses engaged in the production of semiconductor, defense, or space technology products for sale or use.

In order to be granted an SDST exemption, a business must apply to DEO. DEO reviews the business' application and, if approved, forwards an approval certification to DOR. DOR then issues the tax exemption to the business. The SDST exemption is available for two calendar years and can be used retroactively for the three years prior to the date the application was submitted. Businesses may request a renewal of the exemption every two years by submitting a letter to DEO, certifying under oath, that there has been no material change in the conditions or circumstances entitling the business to the original certification. A business certified to receive this exemption may elect to designate one or more state universities or community colleges as recipients of up to 100 percent of the amount of the exemption for which they qualify.

Industrial machinery and equipment used in semiconductor, defense, or space technology facilities to design, manufacture, assemble, process, compound, or produce semiconductor, defense, or space technology products for sale or for use by these facilities are exempt from 100 percent of the sales tax imposed. Section 212.08(5)(j)(7), F.S., defines the following:

- “Semiconductor technology products” means raw semiconductor wafers or semiconductor thin films that are transformed into semiconductor memory or logic wafers, including wafers containing mixed memory and logic circuits; related assembly and test operations; active-matrix flat panel displays; semiconductor chips; semiconductor lasers; optoelectronic elements; and related semiconductor technology products as determined by DEO.
- “Defense technology products” means products that have a military application, including, but not limited to, weapons, weapons systems, guidance systems,

²¹ Section 288.012(5)(j), F.S., Ch. 97-278 s.11, Laws of Florida.

²² Ch. 2000-351, Laws of Florida.

²³ Ch. 2006-57, Laws of Florida.

surveillance systems, communications or information systems, munitions, aircraft, vessels, or boats, or components thereof, which are intended for military use and manufactured in performance of a contract with the United States Department of Defense or the military branch of a recognized foreign government or a subcontract which relates to matters of national defense.

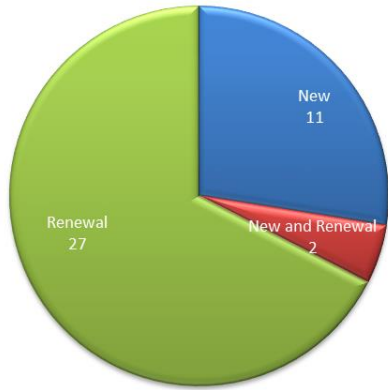
- “Space technology products” means products that are specifically designed or manufactured for application in space activities, including, but not limited to, space launch vehicles, space flight vehicles, missiles, satellites or research payloads, avionics, and associated control systems and processing systems. The term does not include products that are designed or manufactured for general commercial aviation or other uses even though those products may also serve an incidental use in space applications.

Analysis...

Similar to the Military Base Protection Program and the QDSC analyses, an estimate of the economic benefit or return on investment for the SDST exemption is not provided. This incentive is eligible to any business in Florida that is engaged in the production of semiconductor, defense, or space technology products. There are no other requirements to obtain the exemption, and it is not contingent upon the “but for” language found in many of the state’s economic development incentive programs. The SDST exemption cannot reasonably be deemed the primary or determining factor in the business’ decision to purchase machinery and equipment. To remain competitive in the industry, these businesses would have the need to maintain existing capacity and/or upgrade their machinery and equipment as technology changes or conditions otherwise warrant. Moreover, the majority of businesses who have applied for and been granted the exemption are federal contractors; meaning that their machinery and equipment purchases are directly related to the federal contracts that they are awarded. As stated earlier, the amount of the forgone state taxes to any one business is unlikely to be a determining factor in the federal government’s decision to award a procurement contract. Further, other state incentives exist that provide viable alternatives for at least some of the participants.

Findings...

Forty different projects held an active SDST exemption certificate for at least one year during the review period. Some companies had multiple projects for which exemptions were issued. Eleven of the projects were new applicants. Two had both a new application and a renewal application during the review period. Twenty-seven of the applicants were for a renewal exemption certificate. As shown by the following chart, the number of exemption certificates remained consistent from year to year.

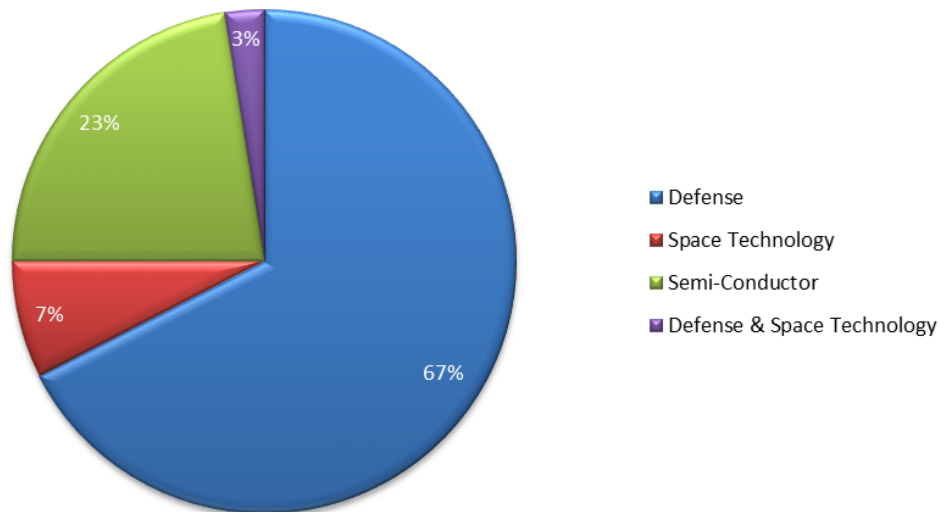


Number of SDST Tax Exemption Certificates by Calendar Year

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
25	26	31	31

Of the 40 projects that held active exemption certificates during the review period, 67 percent were granted to businesses that were involved in the production of defense-related products. Twenty-three percent of the businesses were involved in the production of semiconductor technology products. Space technology projects were only seven percent of the total exemptions awarded.

SDST Exemptions Awarded by Facility Type



Unlike semiconductor manufacturing, defense and space are not recognized as individual industries by the federal government's North American Industry Classification System (NAICS). Rather, they are considered a cluster of activities comprised of many different individual industries. Furthermore, industry designation alone does not determine if the products produced by a business are defense or space related. It is the application and use of such products that determines whether a project is granted a SDST exemption certificate. During the review period, the 40 projects operated within 25 different NAICS industries. They are as follows:

NAICS Code	NAICS Description
332710	Machine Shops
332919	Other Metal Valve and Pipe Fitting Manufacturing
332993	Ammunition (except Small Arms) Manufacturing
332994	Small Arms Manufacturing
332995	Other Ordnance and Accessories Manufacturing
332999	All Other Miscellaneous Fabricated Metal Product Manufacturing
333295	Semiconductor Machinery Manufacturing
333314	Optical Instrument and Lens Manufacturing
333618	Other Engine Equipment Manufacturing
334220	Radio and Television Broadcasting and Wireless Communications Equipment Manufacturing
334413	Semiconductor and Related Device Manufacturing
334414	Electronic Capacitor Manufacturing
334415	Electronic Resistor Manufacturing
334416	Electronic Coil, Transformer, and Other Inductor Manufacturing
334417	Electronic Connector Manufacturing
334418	Printed Circuit Assembly (Electronic Assembly) Manufacturing
334419	Other Electronic Component Manufacturing
334511	Search, Detection, Navigation, Guidance, Aeronautical, and Nautical System and Instrument Manufacturing
335110	Electric Lamp Bulb and Part Manufacturing
335999	All Other Miscellaneous Electrical Equipment and Component Manufacturing
336411	Aircraft Manufacturing
336413	Other Aircraft Parts and Auxiliary Equipment Manufacturing
336414	Guided Missile and Space Vehicle Manufacturing
336999	All Other Transportation Equipment Manufacturing
541710	Research and Development in the Physical, Engineering, and Life Sciences

Tax exempt purchases were reported by at least 28 projects at some point during the review period. The value of the tax exemption is estimated to be \$18.7 million during calendar years 2011-2014. Projects from renewal applicants made up the bulk of spending.

Value of Taxes Exempted by Calendar Year

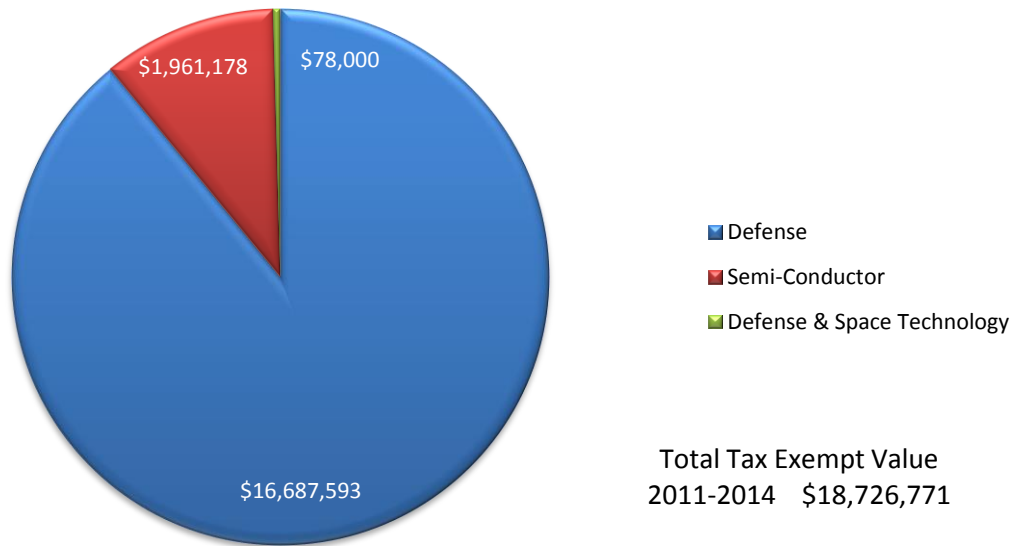
<u>Calendar Year</u>	<u>New Applicants</u>	<u>Renewal Applicants</u>	<u>Total</u>
2011	\$26,050	\$7,134,431	\$7,160,481
2012	\$35,712	\$3,683,039	\$3,718,751
2013	\$97,200	\$5,173,689	\$5,270,889
2014	\$0	\$2,576,650	\$2,576,650

While the state cost for the exemptions is estimated to be \$18.7 million during the period, it is likely that this is an understatement due to the reporting cycle of the businesses. Renewal applicants are required to submit the value of tax exempt purchases, of which the exempt amount is calculated, for the two calendar years prior to requesting the renewal. Given that not all businesses are required to report every year and not all businesses renew every two years, there are years when a business may not report any purchases to DEO. This results in gaps in actual purchases. This can be seen when looking at the yearly totals of the value of

taxes exempted. While spending appears higher in years 2011 and 2013, this may be a function of the reporting cycle of the businesses and not a dip or reduction in overall spending.

The value of the taxes exempted are overwhelmingly realized by those involved in the production of defense technology products. Defense technology facilities accounted for \$16.7 million or 89 percent of all taxes exempted. Semiconductor facilities accounted for approximately \$2 million or 11 percent.

SDST Tax Exempt Values by Facility Type



MANUFACTURING AND SPACEPORT INVESTMENT INCENTIVE PROGRAM

The Manufacturing and Spaceport Investment Incentive (MSII) Program was created in 2010 to encourage capital investment and job creation in manufacturing and spaceport activities in the state. The program was also intended to be a means of relieving some of the sales tax burden on existing manufacturers that were not increasing their productive output enough to be eligible for the standard manufacturing machinery and equipment sales tax exemption in law at the time; however, there is no evidence that this is true. The MSII program offered a refund of sales taxes paid on purchases of eligible equipment placed into service in Florida in excess of the entity's base year purchases (2008). The MSII program was a temporary program that was available from July 1, 2010, to June 30, 2012. The program was allocated \$19 million for sales tax refunds in State Fiscal Year 2010-11 and \$24 million in State Fiscal Year 2011-12, for a total of \$43 million.

In order to be eligible for the MSII program, a business had to meet two eligibility criteria. First, a business had to be engaged in the manufacturing, processing, compounding, or production of items for sale of tangible personal property; engaged in spaceport activities; or engaged in phosphate or other solid minerals severance, mining, or processing operations. Second, a business also had to have made eligible equipment purchases. Eligible equipment purchases included tangible personal property or other property with a depreciable life of three years or more that is used in manufacturing, processing, or compounding; or production of property that is sold exclusively for spaceport activities. The purchases had to be located and placed into service in Florida and be made during State Fiscal Years 2010-11 and 2011-12.

The Manufacturing and Spaceport Investment Incentive Program had a three phase process.

- Phase 1 – A business applied to DEO for an allocation of the available tax refunds. The maximum allocation per applicant was \$50,000 for any single state fiscal year.
- Phase 2 – After purchasing eligible equipment and paying the applicable sales and use taxes, the business applied to DEO for certification to Department of Revenue (DOR) of these expenditures, the amount of sales and use taxes paid, and the amount of its tax refund allocation used. DEO verified this information and submitted the information to DOR.
- Phase 3 – The business submitted a tax refund claim to DOR for payment of the amount certified by DEO. DOR reported payments made to DEO.

Analysis...

Like the other programs in this review, an estimate of the economic benefit or return on investment for the MSII program is not provided. Given the MSII program's low utilization and the limited activity within the study's review period (\$400,878), the "but for" test cannot

reasonably be met because the incentive cannot be deemed the primary or determining factor in the purchasing decisions made by the businesses. Further, other state programs exist that provide viable alternatives for most, if not all, of the participants.

Findings...

As shown in the tables below, the MSII program was not a heavily utilized program. During the review period, DEO received only 55 allocation applications. Forty-eight of those were approved. Of the 48 approved, only 28 applicants completed the second phase of the process. Of those, 25 were certified by DEO for a refund of taxes paid. Of the 25 certified for a refund, 22 applicants received a tax refund from DOR.

Allocation Applications		Certification Applications		
<u>Received</u>	<u>Approved</u>	<u>Received</u>	<u>Certified for Refund</u>	<u>Refunds Paid by DOR</u>
55	48	28	25	22

During the review period, the 25 applicants certified to receive a refund from the MSII program made eligible equipment purchases totaling \$10.4 million. This was an increase of 239.5 percent over the base year's purchases of \$3.1 million.

Purchases		
<u>Base Year</u>	<u>Eligible Equipment</u>	<u>Equipment Less Base</u>
\$3,071,579	\$10,428,851	\$7,357,272

Further illustrating the low utilization rate of the MSII program, the state paid just \$400,878 in tax refunds over two years. This is less than one percent of the total funds allocated to the program (\$43 million).

Payments by State Fiscal Year		
2011-12	2012-13	Total
\$128,761	\$272,117	\$400,878

Those applicants who did participate in the MSII program comprised a wide array of manufacturing industries from food manufacturing to motor home manufacturing, as shown in the following table. The program did not prove to be beneficial to spaceport activities.

NAICS Code	NAICS Description
111930	Sugarcane Farming
311212	Rice Milling
311312	Cane Sugar Refining
311942	Spice and Extract Manufacturing
321114	Wood Preservation
321999	All Other Miscellaneous Wood Product Manufacturing
325199	All Other Basic Organic Chemical Manufacturing
325412	Pharmaceutical Preparation Manufacturing
332322	Sheet Metal Work Manufacturing
332721	Precision Turned Product Manufacturing
334119	Other Computer Peripheral Equipment Manufacturing
335311	Power, Distribution, and Specialty Transformer Manufacturing
335911	Storage Battery Manufacturing
336213	Motor Home Manufacturing
336992	Military Armored Vehicle, Tank, and Tank Component Manufacturing
339113	Surgical Appliance and Supplies Manufacturing
339941	Pen and Mechanical Pencil Manufacturing
339950	Sign Manufacturing