Return on Investment for Select Economic Development Programs

(VISIT FLORIDA, Sports, and the Entertainment Industry)

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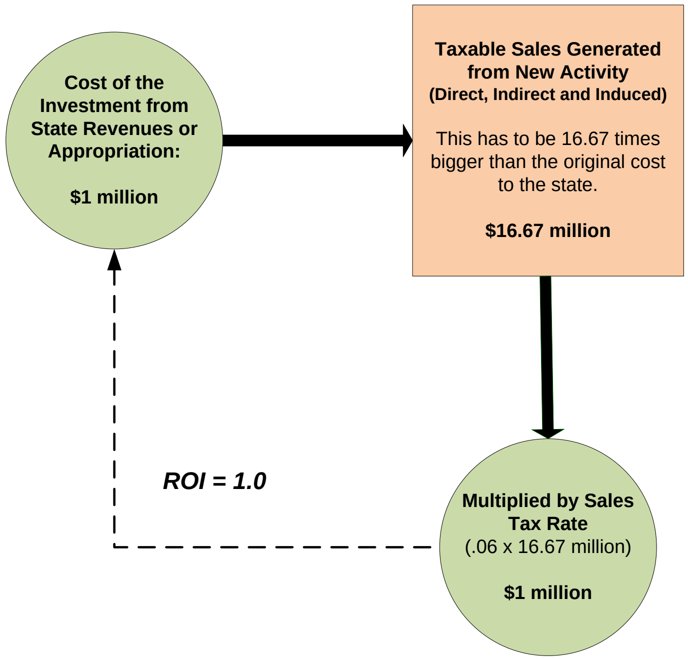
Return on Investment (ROI)...

- In EDR's analysis, the term "Return on Investment" is synonymous with the statutory term "economic benefits" which is defined in s. 288.005, Florida Statutes.

"The direct, indirect, and induced gains in state revenues as a percentage of the state's investment. The state's investment includes state grants, tax exemptions, tax refunds, tax credits, and other state incentives."

Sales Tax Example...



- This measure does not address issues of overall effectiveness or societal benefit; instead, it focuses on tangible financial gains or losses to state revenues.

Meaning of Returns...

Returns can be categorized as follows:

- **Greater Than One (>1.0)…**the program more than breaks even; the return to the state produces more revenues than the total cost of the incentives.

- **Equal To One (=1.0)…**the program breaks even; the return to the state in additional revenues equals the total cost of the incentives.

- **Less Than One, But Positive (+, <1)…**the program does not break even; however, the state generates enough revenues to recover a portion of its cost for the incentives.

- **Less Than Zero (-, <0)…**the program does not recover any portion of the incentive cost, and state revenues are less than they would have been in the absence of the program because taxable activity is shifted to non-taxable activity or the costs are greater than the expected benefit.

The review period for all studies is Fiscal Years 2010-11 through 2012-13. The baseline is what would have happened if the investment hadn't taken place.

Common Question: Effect on Visitors?

Who are the visitors?

- From a statewide perspective, people traveling to the state (uses an estimate of total out-of-state visitors—both domestic and international).

Total Visitors to Florida in 2013:
93.7 million

What motivates the visitors to come to Florida?

- Marketing efforts to raise awareness.
- Self-identified reason or a special event (sporting event, wintering in Florida, business, visiting friends and family, etc.) that exists regardless of marketing.

Marketing-induced Visitors

Own-purpose or Event-driven Visitors

What makes up the visitors' Florida experience?

- Both types of visitors can participate in the same activities once they arrive.
- However, spending by visitors is attributed to the various state programs differently depending upon what motivated their visit.

The Florida Experience:

- Beaches
- Theme Parks
- Retail, Dining and Nightlife
- Outdoor Recreation, etc.

Selection of Visitors...

Reason in-state visitors and attendees are excluded...

- Typically, spending by in-state visitors does not generate new spending; rather, it leads to reduced spending in other sectors of the economy. This is referred to as the *substitution effect*. Essentially, residents will substitute one purchase for another (for example, a day at a local sporting event versus a day at an amusement park) in order to live within a personal budget.

- Within the ROI framework, the benefit to the state typically comes from out-of-state visitor spending because this activity is new to the economy.

Basis for out-of-state split...

EDR's analysis of VISIT FLORIDA's Return on Investment Influencer Study indicates that 54.5% of visitors come to Florida due to marketing-related efforts, and 45.5% come on their own for an event or other self-identified reason.

Visitor Breakout by Influencer Type

Economic Benefits from VISIT FLORIDA...

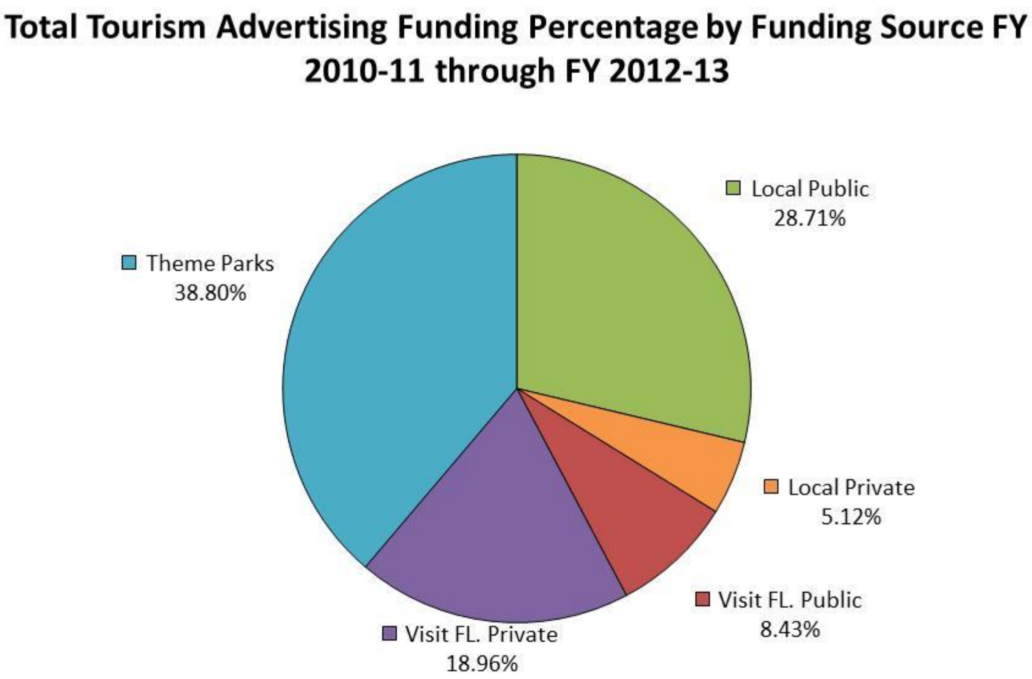
	ROI	State Expenditures	Disposable Income	GDP	Jobs
VISIT FLORIDA Marketing	3.2	$115.5	$10,300.7	$11,826	25,611

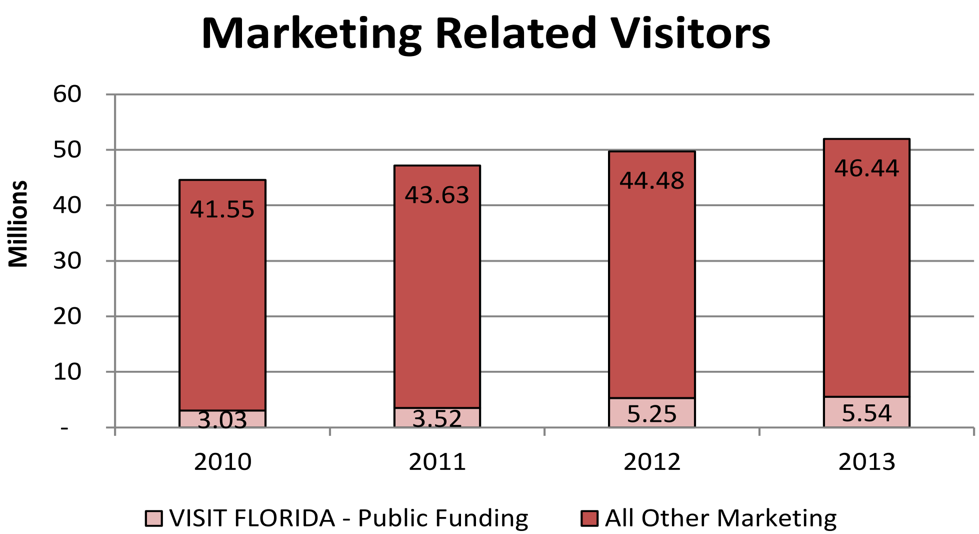
Note: Dollars are reported in millions. Jobs are reported as average annual jobs created to prevent counting accumulated jobs more than once.

The analysis assumes that while some visitors to the state come as a result of marketing efforts, not all visitors to the state of Florida are attributable to VISIT FLORIDA's marketing efforts. To determine the appropriate number of visitors to credit to VISIT FLORIDA's marketing efforts, EDR used the percentage of advertising dollars provided by VISIT FLORIDA's public appropriation relative to the other advertising funding sources.

Allocating the Visitors...

EDR found that $1.37 billion was spent during the review period on major tourism marketing efforts—from state, local, and private sources. In this case, major efforts refer to significant and sustained funding for marketing.





The direct investment by the state ($115.5 million from state funds) was 8.43% of the total major tourism marketing efforts. These advertising shares were used to allocate the total marketing-related visitors.

VISIT FLORIDA Adjustments...

- The analysis also addresses the fact that Florida's brand itself attracts tourists and that separate state investments in the brand are nested within the marketing efforts. While many features comprise the state's unique brand, the key component is Florida's pristine beaches.

Features of Florida that Attract Tourists

Feature	Portion of State Brand
Beaches	25.5%
Theme Park	24.3%
Retail/Dining/Nightlife	21.8%
Outdoor Recreation	7.1%
Access to International Ports or Airports	6.7%
Sports	6.0%
Festivals	4.3%
Parks/Natural Site	2.7%
Historical Significance	1.6%
Film Induced Tourism	0.0%

Source: EDR analysis of self-conducted survey results

Since the brand or destination image increases demand, all else being equal, spending associated with marketing-related visitors attracted primarily by the existence of the state's beaches would not be solely attributable to VISIT FLORIDA's marketing efforts.

- While EDR believes that VISIT FLORIDA fulfills an important role in shaping and coordinating the state's advertising message and brand awareness throughout the state, that function is not easily quantifiable in financial terms. It can be better thought of as a societal benefit. However, since the analysis does assume that all advertising is equally effective, a portion of this role is addressed indirectly.

VISIT FLORIDA Results...

- Total tourism spending that EDR attributed to VISIT FLORIDA's public marketing efforts during the review period:

	2010	2011	2012	2013
Total Visitors	**3.03**	**3.52**	**5.25**	**5.54**
Domestic Visitors	2.62	3.01	4.46	4.65
International Visitors	0.41	0.51	0.79	0.88
Total Spending	**$ 2,173.11**	**$ 2,110.62**	**$ 3,663.88**	**$ 3,992.14**
Domestic Spending	$ 1,784.98	$ 1,543.33	$ 2,809.54	$ 3,041.54
International Spending	$ 388.18	$ 567.30	$ 854.34	$ 950.60
Less Beach Spending Attributable to Beach Restoration	**($188.99)**	**($175.11)**	**($187.32)**	**($213.29)**
Total Spending Attributable to VISIT FLORIDA Public Marketing Spend	**$ 1,984.12**	**$ 1,995.51**	**$ 3,475.55**	**$ 3,778.85**

Note: Values are in millions. Calendar year data was converted to fiscal year data in the analysis.

- The projected ROI reflects the upper bound for VISIT FLORIDA since the identified major advertising sources (state and local governments, private entities, and theme parks) are not the only sources of tourism advertising for the state. While it is impossible to determine the total amount of advertising dollars spent to promote tourism in Florida for a given year, inclusion of additional funding sources would reduce VISIT FLORIDA's reported ROI.

VISIT FLORIDA:
Positive Drivers of the ROI

- Tourist spending is new money to the state. Tourism is essentially "...a footloose export industry..." where the final product is uniquely determined by the consumer from an array of goods and services.

- Tourists purchase many products that are taxable at the state level.
  - Lodging
  - Meals in restaurants
  - Gifts at souvenir shops
  - Entertainment at amusement parks, movie theaters, and sporting events

- Production for products is generally sourced locally (backward linkages).

- State investment in VISIT FLORIDA is relatively low compared to the amount of economic activity generated by out-of-state tourists.

Options for Improving VISIT FLORIDA's ROI...

- Expand marketing efforts to focus on underserved or niche markets in order to attract more visitors. This would increase the total number of tourists, an essential part of improving the ROI.

- The ROI for VISIT FLORIDA suggests that it is currently a strong investment for the state; however, additional state funding for the same advertising program would not necessarily increase the ROI.

  - ***Scenario 1 for Increasing or Constant Returns****...The state's share of total advertising funding would have to increase significantly relative to everyone else, without increasing the state cost per tourist more than the expected benefit to the state in order for the expenditure to be worthwhile. Even so, the ROI may stay the same.*

  - ***Scenario 2 for Diminishing Returns****...it would have taken an additional $40 million over the review period (an increase of nearly 35% of VISIT FLORIDA's public funding) to increase Florida's share to 10% of total advertising, assuming everyone else stayed the same. However, the size of a cost increase like this would cause the ROI to drop if each additional tourist becomes increasingly costly to attract.*

- Make current expenditures more cost effective by finding efficiencies --- reduce costs if possible. For example, leveraging social media.

Economic Benefits from Sports Programs...

Program	ROI	State Expenditures	Disposable Income	GDP	Jobs
Florida Sports Foundation (FSF) Grant Program	5.61	$2.3	$313.0	$371.8	787
Professional Sports Franchise Incentive	0.30	$48.0	$307.6	$382.4	645
Spring Training Baseball Franchise Incentive	0.11	$12.6	$22.5	$34.6	73
Professional Golf Hall of Fame Facility Incentive	-0.08	$6.0	-$17.7	-$16.5	-34
International Game Fish Association World Center	-0.09	$3.0	-$9.4	-$9.2	-18

Note: Dollars are reported in millions. Jobs are reported as average annual jobs created to prevent counting accumulated jobs more than once. The reported ROIs are related to the specific program designs that existed between 2010 and 2013; they do not reflect any subsequent legislative changes.

Positive Drivers Underlying the ROI for the Florida Sports Foundation Grants...

- Low Cost Relative to State Benefit
  - Average grant amount per event was under $15,000.
  - The state cost per out-of-state visitor for all five programs is $65.73; for FSF, the cost is $9.57.

- High Percentage of Out-of-State Visitors
  - By design, the FSF Grant Program sponsors events that will attract out-of-state visitors.
  - During the review period, a total of 1,094,960 out-of-state visitors were estimated to have visited Florida due to the five sports programs; 238,395 (21.8%) were related to FSF.

- Return-Based Incentive
  - Each FSF grant reflects the anticipated benefit of the event, and FSF can adjust the final award amount based on the event's actual impact.
  - For the other programs, Florida makes a long-term financial commitment without knowing the long-term economic benefits generated from the facilities.

- Facility Construction
  - During the review period, two sports facilities underwent construction or renovation.
  - The benefits of construction are typically localized. The work is labor intensive and the wages are spent locally which drives up Florida's GDP and the return on investment.
  - The materials are largely taxable.

Negative Drivers of ROI for Other Sports

- Program costs high relative to the state benefit. The majority of visitors to the facilities are Florida residents.

- Capital investments (construction) generally occurred prior to review period, meaning those benefits did not impact the economy during the review period.

- The financing responsibilities for facility funding are shared, therefore the economic benefit is proportionately distributed among the contributors.

- Florida’s financial commitment to these programs diverts spending away from other state programs that have a greater economic impact for the state. For bonding-related programs, the state’s investment lasts for a long period of time; a significant portion goes to interest payments that do not add to the state’s economy.

- The ROI does not take into account any intangible benefits associated with the professional sports and spring training programs. Intangible benefits can include increased community pride or media exposure from televised sporting events. While these benefits likely exist, they are difficult to include in the ROI calculation.

Options for Improving Sports' ROI...

- Increase the number of out-of-state visitors.
  - Explore promotional strategies with VISIT FLORIDA that have sports tie-ins.
  - Advertise package deals (hotel, rental car, tickets) in visiting team's home market.
  - Explore the cost-effectiveness of additional state participation in bidding for signature events.

- Conduct independent economic impact studies for future facilities.
  - Develop realistic estimates of out-of-state visitors to facilities and the long-term economic impact to the state.
  - Adjust the state incentive amount to reflect the expected gain in state revenue.

- Consider recalculating the state and local shares of the debt service payments each year based on the prior year's split between out-of-state and in-state attendees.

- Consider making upfront low-interest or interest-free construction loans to the local governments for the state's investment in the facilities instead of recurring sales tax distributions for debt service.

Economic Benefits from Entertainment Industry

	ROI	State Expenditures	Disposable Income	GDP	Jobs
Entertainment Industry Incentive – Scenario 1 Credits Taken	0.43	$43.3	$512.9	$518.4	878
Entertainment Industry Incentive – Scenario 2 Credits Awarded	0.25	$67.3	$463.1	$460.0	751
Entertainment Industry Sales Tax Exemption	0.54	$44.2	$1,704.7	$1,747.6	3,256

Note: Dollars are reported in millions. Jobs are reported as average annual jobs created to prevent counting accumulated jobs more than once.

Two scenarios were developed for the Entertainment Industry Incentive to recognize that the current tax credit program did not begin until July 1, 2010. Because there is a lag time associated with this type of incentive, no tax credits were taken in the first year of the program (FY 2010-11), and the state costs were zero. The second scenario—credits awarded—may provide a more accurate picture of the ROI for a mature program, but it is not reflective of the actual experience during this particular three-year review period.

Comparison to Other States...

Estimates of Return on Investment by State Entities for State Film Incentive Programs

State	Year of Review	Research or Report Sponsor	% of Reimbursement for Qualified Expenditures	ROI to the State
Alaska	2012	Legislative Budget & Audit Cm	30 - 44%	$0.07
Arizona	2008	Department of Commerce	20 - 30%	$0.27
California	2014	Legislative Analyst Office	20 - 25%	$0.65
Connecticut	2014	Dept. of Economic & Com. Dev.	30%	-$0.09
	2008	Dept. of Economic & Com. Dev.	30%	$0.08
Florida	2014	Economic & Dem. Research	20 - 30%	
		Credits Awarded		$0.43
		Awarded Credits Assumed Used		$0.25
Louisiana	2013	Dept. of Economic Development	30 - 35%	$0.11
	2011	Legislative Fiscal Office		$0.15
	2009	Dept. of Economic Development		$0.13
	2005	Legislative Fiscal Office		$0.16 to $0.18
Maryland	2014	Dept of Legislative Services-Draft	25 - 27%	$0.06*
Massachusetts	2013	Dept. of Revenue	25%	$0.13
Michigan	2014	Michigan Film Office**	29% (2012)	$0.38
			37% (2011)	$0.24
	2010	Senate Fiscal Agency	42%	$0.11
New Mexico	2014	Dept. of Finance & Administration	25 - 30%	$0.33
	2008	Legislative Finance Committee	25%	$0.14
North Carolina	2014	Legislative Services Office	25%	$0.46***
Pennsylvania	2013	Independent Fiscal Office	25 - 30%	$0.14

* October 2014 Draft

** While commissioned by the Michigan Film Office, the analysis was conducted by Regional Economic Models, Inc., a recognized independent research entity.

***4/13/14 Preliminary

Entertainment Industry: Positive Drivers of ROI

- Entertainment Industry Financial Incentives Program

  Scenario 1 – Tax Credits Taken

  - Additional support could have been provided by local governments that was not identified.
  - Assumption that all projects meet the “but for” test.
  - Exclusion of credits awarded but not taken. This boosted the ROI since no tax credits were taken in the first year; the program began the first year of the review period.

  Scenario 2 – Tax Credits Awarded

  - Additional support could have been provided by local governments that was not identified.
  - Assumption that all projects meet the “but for” test.

- Entertainment Industry Sales Tax Exemption
  - For the projects used in the analysis, the analysis assumes that the sales tax exemption induces the exempt expenditures; in other words, that they would not have occurred in the absence of the exemption.
  - Assumption that expenditures estimated at the time of application reflect actual expenditures. This assumption may have a neutral effect, rather than positive.

Negative Drivers of Entertainment Industry ROI

- Entertainment Industry Financial Incentives Program
  - Some capital investment projects could have taken place that were not identified.
  - Some companies participated in both programs, driving up the total state cost.
  - No spending was attributed to film-induced tourism due to inconclusive evidence from the academic literature and EDR survey results. Even if 100% as effective as major advertising efforts, the expenditure relative to $1.37 billion in direct advertising would still be small.
  - The transitory nature of film production has impermanent effects on the economy.
  - Program design which includes *Transferability of Tax Credits* --- Credits may be sold to someone with a tax obligation, either directly or through an intermediary, and typically at a discount. The state pays more than it has to (equal to the amount of the discount) for the same amount of production activity. This drives up costs without a commensurate benefit.

- Entertainment Industry Sales Tax Exemption
  - Not all recipients meet the "but for" assumption. Certain companies were "culled." For example, Florida companies existing prior to 2000, before the state's incentive efforts began.
  - Some companies participated in both programs, driving up the total state cost.

Options for Improving the Entertainment Industry's ROI...

- Entertainment Industry Financial Incentive
  - Remove the loss associated with the transferability of tax credits by awarding cash grants instead of the credits.

    Option 1... Set total cash awards equal to the projected cost for credits which would actually increase the dollars flowing directly to the industry (no leakage).

    Option 2... Set total cash awards equal to the existing discounted level that actually goes to the industry which would reduce the program's costs while maintaining the same level of output.

  - Include a capital investment requirement.
  - Introduce more competition for awards and stronger qualifying criteria.
  - Link award levels to the level of actual Florida exposure in the production—essentially buying direct "product" placement—in order to provide a quantifiable connection to tourism.
  - Require or strongly reward recipients for completing pre-production and post-production work in Florida, introducing forward and backward linkages.
- Entertainment Industry Sales Tax Exemption
  - Consider changing to a refund program with additional criteria and/or targeting.

Comparison to Other Programs...

Ranked Incentives and Investments	ROI	STATUS
Qualified Target Industry (QTI)	6.4	More than Breaks Even (State makes money from the investment)
Florida Sports Foundation Grant Program	5.6	
Economic Evaluation of Florida's Investment in Beaches	5.4	
VISIT FLORIDA Advertising	3.2	
Capital Investment Tax Credit (CITC)	2.3	
Brownfield	1.1	
Quick Action Closing Fund (QACF)	1.1	
High-Impact Sector Performance Grant (HIPI)	0.70	Does Not Break Even (however, the state recovers a portion of the cost)
Entertainment Industry Sales Tax Exemption (STE)	0.54	
Entertainment Industry Financial Incentives Program (Tax Credit or FTC)	0.43	
Professional Sports Franchise Incentive	0.30	
Innovation Incentive Program (IIP)	0.20	
Spring Training Baseball Franchise Incentive	0.11	
Urban High-Crime Area Job Tax Credit	0.07	
Enterprise Zones	-0.05	State Loses All of Its Investment (plus incurs additional costs)
Professional Golf Hall of Fame Facility Incentive	-0.08	
International Game Fish Association World Center Facility Incentive	-0.09	