Will Legislature’s battle hurt job growth?

Political fight over Enterprise Florida throws a chill on region’s efforts to recruit companies

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Cover Story

Loss of economic incentives could stall job growth, South Florida leaders say

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To many onlookers, the infighting in Tallahassee over Enterprise Florida is just the latest in a long line of political battles.

But to Florida business leaders, the war waged over the agency’s existence is already crippling efforts to lure new big companies, expand existing businesses and accelerate job creation.

“There’s no denying the key role the state’s economic development agency has played in boosting business growth in South Florida, local leaders say.

One example is umbrella and patio furniture manufacturer Tuuci in Miami, which since 1998, the company considered leaving Florida due to rising property taxes that made expanding here cost prohibitive. It looked at Georgia, North Carolina and South Carolina, which also had a skilled manufacturing workforce, port access – and warehouse space that cost about one-fifth of that in Miami.

But before leaving, president and general counsel Tim Parker reached out to the Beacon Council and Enterprise Florida, the public-private agency that promotes business relocations and prepares incentive applications. They helped the company qualify for a $126,000 tax refund over seven years through the Qualified Target Industry (QTI) program in exchange for retaining its workforce and adding 21 more jobs. In 2013, Tuuci took the deal and invested $1.25 million as it expanded into a 100,000-square-foot facility.

“I might have left. Incentives were one of three or four things I looked at,” said Parker, whose company now has over 250 employees. “There is so much available cheap warehouse space in the Southeast that Florida had to fight to keep us here.”

Deals such as Tuuci’s could become a thing of the past. In March, the Florida House passed HB 7065 to eliminate Enterprise Florida and most of the incentive programs it utilizes, including the QTI tax refunds and the Quick Action Closing Fund (QACF), which awards cash payments. The same bill also sought to cut funding to Visit Florida, the state’s tourism marketing agency.

While the Florida Senate has not taken up a similar bill and Gov. Rick Scott has vowed to veto it, the proposed House budget contains no funding for Enterprise Florida or incentive programs. House Speaker Richard Corcoran, R-Lutz, is strongly opposed to handing tax dollars to businesses, and insists he won’t budge on the issue.

Amid all this turmoil, Chris Hart resigned as CEO of Enterprise Florida in March, citing a “critical” difference of opinion with the governor.

While it’s hard to predict what will happen on the political battlefield, the ramifications are already playing out in the corporate world.

“This controversy over incentives is putting a cloud over Florida’s industry attraction opportunities at a very inopportune time,” said John Boyd, principal of Princeton, New Jersey-based corporate relocation firm Boyd Co., which has worked with companies such as JPMorgan Chase, Visa International, Office Depot and PepsiCo.

“There are concerns about what a post-Rick Scott Florida will look like from an industry perspective, and this battle in

By the Numbers

Incentive deals from 1994 to 2016

2,296
Incentive deals approved under seven programs

38,617
Jobs pledged by firms with Quick Action Closing Fund

10,841
Jobs contractually due under active QACF deals

12,307
Confirmed jobs created by active QACF deals

40,424
Jobs pledged by firms with active Qualified Target Industry deals

10,524
Jobs contractually due under active QTI deals

13,303
Confirmed jobs created by active QTI deals

Source: Enterprise Florida, Department of Economic Opportunity, 2016 Incentives Report
Tallahassee is fueling that fire.” Boyd said Scott’s leadership has made Florida a premier state for corporate relocations and helped it lead the nation in job creation. But Florida has stiff competition.

States such as Georgia, South Carolina and Tennessee aggressively compete for companies with generous financial incentives, so eliminating incentives would place Florida at a severe disadvantage, Boyd said. The lack of incentives could tempt South Florida companies in expensive buildings to relocate to other markets, as there are plenty of empty buildings in states offering sizable incentives, he said.

Americans for Prosperity spokesman Andres Malone said his organization will continue to advocate for shutting down incentive programs in Florida, and across the country, because they’re not a good use of public funds.

“We don’t see it as a core function of government,” he said. “We want government to focus on the core principles our nation was founded on, and not to give our tax dollars to corporations.”

Malone said the money allocated to Enterprise Florida and incentives would be better spent on schools and infrastructure.

In an interview, Scott said he doesn’t award a company an incentive deal unless the return on investment for the state is at least five times the incentive package. That means the taxes generated by the company creating high paying jobs and making capital investments in items such as new buildings or equipment greatly exceeds the amount of incentives.

In addition to the tax revenue, corporate relocations have an economic impact that boosts spending at local businesses, from hotels to real estate, Scott said.

“You have to create the jobs or build the building — or you don’t get the money,” he said.

State Rep. Evan Jenne, D-Dania Beach, the policy chair for the Democrats, said he voted for HB 2006 because incentives are not a good use of taxpayer dollars, and the new jobs often go to people relocating to Florida, instead of the residents who contributed their tax dollars to the incentives.

Even if Enterprise Florida survives this legislative session, the debate will continue, Jenne said. After Corcoran finishes his two-year term as House speaker, the next two Republicans in line for speaker also oppose Enterprise Florida and incentive programs. That means this political climate will likely draw out for at least six years, Jenne said.

“The barn door is open and the horse is out now,” he said. “It will be very difficult to get this idea back in and get people to fall away from it.”

**Chilling corporate recruitment**

Scott said Florida has lost out on big corporate relocation deals because other states offered better incentives. In 2016, he was trying to lure Mercedes-Benz’s U.S. headquarters from New Jersey to Florida, most likely somewhere in South Florida. But the auto company chose a suburb of Atlanta because Georgia provided an incentive package worth up to $50 million.

“Though we would win, but we lost,” Scott said. “I think their [Mercedes] first reaction was South Florida because of the flights to Latin America. In that deal, Georgia offered too much money.”

Since missing out on Mercedes, the legislature quashed funding for the Quick Action Closing Fund, putting the state at a disadvantage in bidding for the truly large projects that require cash, Scott said. Florida was in the running for General Electric Co.’s headquarters relocation in 2016, but the company moved to Massachusetts after Florida defunded the program.

Malave said Americans for Prosperity is all for helping businesses with reduced regulations and lower taxes, but awarding companies incentives goes against free market economics. He said it’s unfair that tax dollars from external Florida companies are used to subsidize new businesses that might be in direct competition with them. For instance, Navy Federal Credit Union received incentives for its new Pensacola offices, and it’s competing with other Florida financial institutions, he said.

“These organizations think they are entitled to this money, and they are simply not,” Malave said. “This money is reserved for schools. This money is reserved for infrastructure.”

Enterprise Florida completed 211 projects in fiscal year 2015, and only 17 required cash incentives, said Enterprise Florida board member Alan Becker, founding shareholder of law firm Becker & Pollack. He said Enterprise Florida plays a crucial role by finding leads for local economic agencies and providing guidance for companies.

“Virtually every other state offers incentives. That is the marketplace,” Becker said. “Site selectors tell us we won’t even compete in Florida if we don’t compete on incentives.”

Since the debate over incentives began, Business Development Board of Palm Beach County President and CEO Kelly Smallridge said she hasn’t received as many inquiries from companies and site selection professionals about relocations. Interest from large companies that would typically request QACF dollars has been particularly scarce.

“The conversation in Tallahassee is scaring companies,” Smallridge said. “Ninety percent of all large companies that come to Florida have site selection consultants, and site selection consultants are steering away from Florida because they don’t think they can get incentives in Florida and they can get them in other states.”

When making relocation decisions, companies must make the best deal for their shareholders, and white incentives are only one factor in evaluating a site, they can often be the deciding factor.
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said Beacon Council board member Alan Kleber, a managing director with JLL in Miami who represents commercial tenants in relocations.

The Business Development Board can still offer companies tax incentives under the QTI program, but Smallridge has warned companies the program may be eliminated in the state budget year starting July 1, so they should apply before then to reserve their spot. Past deals would be honored.

“Some companies can’t lock in so quickly and want to wait until September to make a decision,” Smallridge said. “They might be doing due diligence on other counties or states, and while they put Florida on the sidelines, they might find a very attractive deal in another state.”

If all state incentive programs went away, Smallridge said she would work with Palm Beach County and its municipalities to continue their incentive programs, but it would be very difficult for them to compete with offers from other states. Kleber said the cancellation of incentives in Florida would cause economic development agencies in other states to aggressively target Florida businesses with lucrative offers to move.

Greater Fort Lauderdale Alliance President and CEO Bob Swindell said none of the deals he’s working on have been hurt by the debate over incentives. Broward County is very conservative and doesn’t award many cash incentives through the QACE.

Swindell is more worried about the loss of the QTI program, which it uses on about one-third of its projects, or the elimination of Enterprise Florida as the agency that vets these applications. Shifting the vetting to the Florida Department of Economic Opportunity without additional funding would hurt the program, he said.

Smallridge said about one-third of the 27 projects the Business Development Board completed last year received incentives.

“If I can make a deal without incentives — and save the city, county and state money — I will do it every chance I get,” Smallridge said.

She doesn’t offer companies incentives unless they are only considering locations in Florida. But when the companies have serious options in other states, especially in cities with more available real estate at low prices, Smallridge said incentives have made the difference many times.

For instance, orthopedic medical device maker Zimmer Biomet was strongly considering an expansion in California after it was acquired, but a $1 million state incentive deal in 2015 helped it stay in Palm Beach Gardens, where it retained 473 workers and plans to add 178.

KLX Aerospace Solutions would have taken its operations with 600 jobs in Miami-Dade to Memphis without an incentive deal, said Dyan Brasington, executive VP of economic development at the Beacon Council. The company received a $1.7 million grant in 2016 to retain those jobs and add 400 more positions in a new facility in Hialeah.

Kleber, who represented KLX in the deal, said incentives bridged the gap between the costs of operating in Miami-Dade and Memphis. If KLX had left, the loss of 600 jobs would have had a negative impact on the local economy, so the incentives were well worth it, he added.

“In an area as competitive as this, every single advantage or disadvantage can make the difference,” said Beacon Council Chairman Leon Pardes, co-managing shareholder in the Miami office of Greenberg Traurig. “The biggest concern is all the noise and the misconception that Florida is not a business-friendly state.”

Davis said only 11 percent of the companies the Beacon Council assists receive incentives. These companies must meet the statutory requirements, including providing high-paying jobs in certain key industries, and providing a positive return on investment in projected tax revenues.

Even if most local small businesses don’t qualify for incentives, the program is still a plus because attracting viable companies boosts all businesses, said G.

Eric Knowles, president and CEO of the Miami-Dade Chamber of Commerce. He notes that few economic incentive projects have landed in Miami-Dade’s predominantly African-American neighborhoods, such as Miami Gardens, but they lack the infrastructure that major companies require.

“Unfortunately, a lot of the incentives are for large companies,” Knowles said. “We’ve got to look at other avenues for small businesses to grow.”

Enterprise Florida questioned

But Corcoran has frequently criticized the size of salaries and contracts at Enterprise Florida. A May 2016 audit described the organization as top-heavy with management, overspending on office space, and lacking in internal controls to prevent financial mismanagement.

Americans for Prosperity’s Malave said another criticism is that Enterprise Florida is 91 percent funded by taxpayers, but its board is controlled by private companies, including some that have sought incentives. Instead of wasting money on marketing, Florida should attract companies by reducing taxes and enhancing the quality of public services, such as schools and transportation, he said.

But Smallridge said the state has a greater return on investment from Enterprise Florida’s funding. The organization’s 2014-2015 annual report said it executed contracts promising capital investment of over $2.7 billion after receiving $38.5 million in funding, mostly from the state.

Its advertising efforts have helped convince companies that Florida is not just a retirement destination, Smallridge said.

“One of my hardest jobs in Palm Beach County is convincing companies that we are serious about business,” she said. “There is no way Palm Beach County is going to be as knowledgeable and have the same amount of resources as the state has” to get the message out, she said.

Enterprise Florida has been very effective at organizing trade missions, she said. When she went with Enterprise Florida to Toronto, the agency scheduled meetings for her with 16 companies that expressed interest in Palm Beach, and provided her background on both the companies and the CEOs she would be meeting.

“I am hopeful our state legislators, regardless of rhetoric and bantering, will understand it is companies that pay corporate taxes in our state, and it is companies that employ our residents and provide them jobs,” Smallridge said. “Why not give Enterprise Florida more resources? If you had a fund with a return like Enterprise Florida has, you would want to invest more.”

See a database of all South Florida companies awarded incentives in fiscal year 2015-2016 at SouthFloridaBusinessJournal.com