

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** CS/HB 663 Economic Gardening Technical Assistance Program

**SPONSOR(S):** Economic Development & Tourism Subcommittee; Hudson

**TIED BILLS:** **IDEN./SIM. BILLS:** SB 1012

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Economic Development & Tourism Subcommittee	12 Y, 0 N, As CS	Duncan	West
2) Economic Affairs Committee		Duncan	Creamer

### SUMMARY ANALYSIS

The bill amends the Economic Gardening Technical Assistance Pilot Program to remove the word "Pilot," thus making the Technical Assistance Program permanent, rather than temporary; direct the Department of Economic Opportunity to contract with the University of Central Florida's Institute of Economic Gardening to implement the Technical Assistance Program; and revise the business eligibility requirements.

The bill also defines the terms "NAICS" and "NAICS Qualifying Code" and conforms the cross-references under the Technical Assistance Program and the Economic Gardening Business Loan Pilot Program.

The bill does not have a fiscal impact on state or local government revenues.

The bill provides an effective date of July 1, 2013.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. EFFECT OF PROPOSED CHANGES:

##### **Present Situation**

##### **Economic Gardening**

Economic gardening is a long-term, economic development strategy designed to grow jobs by encouraging entrepreneurial activity in a community, region, or state. In contrast to traditional “economic hunting” strategies aimed at recruiting businesses from outside the community, economic gardening focuses on the job creation potential of small local businesses that already exist in the community. According to an expert in the implementation of economic gardening, “economic gardening is not a quick fix – it is not a silver bullet. It is a long term strategy. It is not a fad diet; it is a lifestyle change. It takes a while to put the infrastructure in place and to get to a scale large enough to make a difference. It also takes a while for a company to start to grow and add jobs. However, with patience and commitment it has proven to be a viable alternative to the traditional practices of economic development.”<sup>1</sup>

The concept of economic gardening was pioneered in 1987 by the City of Littleton, Colorado, during a statewide recession. It is based on research by M.I.T. and Federal Reserve Bank of Kansas City economists, which shows that the vast majority of new jobs in a local economy are produced by the community’s small local businesses, specifically a small group of high-growth businesses called “gazelles,” which are second stage businesses employing between ten and 99 employees.<sup>2</sup> These second stage businesses usually generate between \$1 million and \$50 million in annual revenue, depending on the industry. Second stage companies are significant job creators and often have global or national markets, meaning these businesses bring outside dollars into the community. At this stage of the business cycle, businesses are focused on developing new markets, refining business models, and accessing competitive intelligence.<sup>3</sup>

Economic gardening focuses on three main elements:<sup>4</sup>

- **Information:** The survival and growth of small businesses depends on access to critical information. Access to free or affordable information and consulting services is thus extremely valuable. Programs can provide access to information on markets, customers, and competitors, such as business databases, GIS (geographic information system), and search engine marketing.
- **Infrastructure:** This element focuses on building and supporting the development of community assets essential to commerce and overall quality of life. In addition to basic physical infrastructure, this element includes quality of life infrastructure (e.g., parks, open spaces, and historical preservation) and intellectual infrastructure that provide educational opportunities to help keep companies competitive.
- **Connections:** Entrepreneurs benefit significantly from interaction and exchange among business owners and resource providers, such as trade associations, think tanks, and academic institutions. Examples of strategies that improve connectivity include business roundtables, peer-to-peer learning sessions, and mentoring programs that partner new business owners with accomplished businesses in their industry.

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<sup>1</sup> Christian Gibbons, The IEDC Economic Development Journal, *Economic Gardening*, Vol. 9, No. 3, Summer 2010, at 11, on file with the staff of the House Economic Development & Tourism Subcommittee.

<sup>2</sup> Federal Reserve Bank of Atlanta, Community Development, *Economic Gardening Helps Communities Grow Their Own Jobs*, Vol. 18, No. 1, 2008, at 2, [http://www.frbatlanta.org/pubs/partners/partners-no\\_1\\_2008-economic\\_gardening\\_helps\\_communities\\_grow\\_their\\_own\\_jobs.cfm](http://www.frbatlanta.org/pubs/partners/partners-no_1_2008-economic_gardening_helps_communities_grow_their_own_jobs.cfm) (last visited February 27, 2013).

<sup>3</sup> Edward Lowe Foundation, *Economic Gardening – An entrepreneur-oriented approach to economic prosperity*, available at <http://edwardlowe.org/edlowenetwp/wp-content/themes/implementprogram/downloads/infosheets/EconomicGardening.pdf>.

<sup>4</sup> See supra note 1.

## Florida's Economic Gardening Initiatives

In 2009, the Legislature created a two-pronged economic gardening initiative.<sup>5</sup> The first component is the Economic Gardening Business Loan Pilot Program<sup>6</sup> which provides low-interest short-term loans to eligible businesses to assist them with their infrastructure, networking, and mentoring needs. For eligibility in the loan program, businesses must meet the following criteria:<sup>7</sup>

- It must be a for-profit, privately held, investment-grade business that employs between 10 and 50 persons.
- The business has been in existence in Florida for a period of at least two years.
- The business generates between \$1 million and \$25 million in annual revenue.
- The business is eligible for the Qualified Targeted Industry (QTI) tax refund program pursuant to s. 288.106, F.S. A key requirement of the QTI program is that businesses must pay an annual average wage of at least 115 percent of the average private sector wage in the area where the business is located or the statewide private sector average wage.<sup>8</sup>
- During three of the last five years, the company has experienced steady growth in its gross revenues and employment.

The second component of the economic gardening initiative is the Economic Gardening Technical Assistance Pilot Program,<sup>9</sup> the purpose of which is to stimulate investment in the state's economy by providing technical assistance for eligible businesses. The eligibility requirements for a business seeking technical assistance are the same as those under the Economic Gardening Business Loan Pilot Program.<sup>10</sup>

The Department of Economic Opportunity (DEO) is directed to select by competitive bid a third-party contractor to implement the pilot program. Selection criteria for the contractor must include the ability to implement such a program on a statewide basis; the capability to provide counseling services, access to technology and information, marketing services and advice, business management support, and similar services; and whether the contractor qualifies for matching funds to provide the technical assistance.<sup>11</sup> The law also authorizes the third-party contractor to promote the general business or industrial interests of the state.<sup>12</sup>

Twice a year, DEO must review the third-party contractor's progress and determine if it is meeting its contractual requirements. If not, DEO may terminate the contract and re-bid.<sup>13</sup>

The technical assistance provided by the pilot program, includes, but is not limited to:<sup>14</sup>

- Access to free or affordable information and consulting services, including information on markets, customers, and competitors, such as databases, geographic information systems, and search engine marketing.
- Development of business connections, including interaction and exchange between business owners and resource providers, which may include trade associations, academic institutions, business roundtables, peer-to-peer learning sessions, and mentoring programs.

The third-party contractor is directed to select eligible businesses in more than one industry cluster and, where possible, in different regions of the state.<sup>15</sup> Any business receiving the technical assistance

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<sup>5</sup> Chapter 2009-13, L.O.F., *codified at* ss. 288.1081 and 288.1082, F.S.

<sup>6</sup> Section 288.1081, F.S.

<sup>7</sup> *See* ss. 288.1081(3)(a), F.S., and 288.1082(4)(a), F.S.

<sup>8</sup> *See* s. 288.106(4)(b), F.S.

<sup>9</sup> Section 288.1082, F.S.

<sup>10</sup> Section 288.1082(4), F.S.

<sup>11</sup> Section 288.1082(2), F.S.

<sup>12</sup> Section 288.1082(6), F.S.

<sup>13</sup> Section 288.1082(7), F.S.

<sup>14</sup> Section 288.1082(3), F.S.

<sup>15</sup> Section 288.1082(4)(b), F.S.

must sign an agreement with the third-party contractor committing to the following minimum conditions, on a basis determined by the contractor:<sup>16</sup>

- Attending a minimum number of meetings with the third-party contractor.
- Reporting job-creation data.
- Providing financial data.

DEO is required to, by December 31, submit to the President of the Senate, the Speaker of the House and the Governor an annual report detailing the progress of the technical assistance pilot program. This annual report must, at a minimum, include the number of businesses receiving assistance, the type and location of businesses assisted, and the number and wages of jobs created as a result of the business assistance provided, if any.<sup>17</sup>

#### University of Central Florida – Economic Gardening Institute (GrowFL)

In 2009, the Executive Office of the Governor's Office of Tourism, Trade, and Economic Development<sup>18</sup> contracted with the University of Central Florida (UCF) to implement the Economic Gardening Technical Assistance Pilot Program. UCF then established the Florida Economic Gardening Institute (GrowFL) in 2009.

The GrowFL Program has provided services for second stage companies, which include, but are not limited to economic gardening technical assistance, CEO Roundtables, CEO Forums, human resource webinars, workshops, and the "Florida Companies to Watch" recognition event. These activities are targeted to support the second stage CEOs with operational and revenue-increasing strategies to improve business performance. Technical assistance was delivered through a centrally managed technical assistance team with access to various market research databases and tools to facilitate strategy, market research, web strategy and search engine optimization. A typical technical assistance consultation was 40 hours and was provided at no charge to the client. Work was handled virtually with clients via conference calls and the use of an on-line collaboration system.<sup>19</sup>

Overall GrowFL Program Performance as of December 31, 2012<sup>20</sup>

- 606 Strategic Research/Technical Assistance Engagements for 506 Companies
- 17 CEO Roundtable Groups established throughout Florida
- Numerous special events Including CEO Forums, Webinars, and Kauffman Workshops
- Held two Florida Companies to Watch events over the last two years and recognized 100 companies— averaged 450 attendees

#### Department of Economic Opportunity - Mid-Year Program Report

In December 2012, DEO submitted a Mid-Year Program Report to the Legislature and the Governor to which covers the period of July 1, 2012 through October 31, 2012. The report provided the following information:<sup>21</sup>

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<sup>16</sup> Section 288.1082(5)(a), F.S.

<sup>17</sup> Section 288.1082(8), F.S.

<sup>18</sup> In 2011, the Legislature merged the Office of Tourism, Trade, and Economic Development into the newly created Department of Economic Opportunity. See s.4, ch. 2011-142, L.O.F.

<sup>19</sup> Florida Economic Gardening Institute at the University of Central Florida, *GrowFL Program Summary, November 2009 through September 1, 2011*, at 4, available at <http://www.growfl.com/downloads/GrowFL-Final-Report-Summary-09-11.pdf>.

<sup>20</sup> Florida Economic Gardening Institute at the University of Central Florida, *GrowFL Fact Sheet, December 2012*, available at, <http://www.growfl.com/downloads/GrowFL-facts2013.pdf>.

<sup>21</sup> Florida Department of Economic Opportunity, *Economic Gardening Technical Assistance Pilot Program (Mid-Year) Report*, December 18, 2012, at 3, on file with the staff of the House Economic Development & Tourism Subcommittee.

Since July 1, 2012, 99 second stage companies submitted applications to receive technical assistance. A total of 90 companies within 19 counties were accepted, and applications from nine companies were being processed. The industries represented are classified by North American Industry Classification System as follows:

NAICS Description	NAICS Code	Number of Companies
Administrative and Support Services	56	3
Finance and Insurance Services	52	5
Information Industries	51	8
Management of Companies	55	4
Manufacturing	31	29
Professional, Scientific and Technical Services	54	36
Wholesale Trade	42	5
<b>Total</b>		<b>90</b>

#### Office of Program Policy Analysis and Government Accountability - Evaluation of the Florida Economic Gardening Technical Assistance Pilot Program

In 2009, the Legislature directed the Office of Program Policy Analysis and Government Accountability (OPPAGA), by December 31, 2012, to review the technical assistance pilot program and its effectiveness in expanding targeted businesses, and provide a report to the President of the Senate, the Speaker of the House of Representatives, and the Governor.<sup>22</sup> In December 2012, OPPAGA published its report which in summary stated:<sup>23</sup>

- GrowFL experienced several implementation obstacles, including difficulty attracting participants and assessing companies' eligibility. Consequently, the program served a significant number of ineligible companies and was unable to determine eligibility for many others.
- Our analysis found that companies that received multiple services were more likely to grow after pilot program participation, and most of our survey respondents found GrowFL services helpful. We also found that eligible companies were more likely to increase employees and wages than those that did not meet the program's statutory eligibility requirements. In addition, our statistical modeling showed that eligible program participants had greater than predicted employment growth in one of three quarters in 2011, with no statistically significant difference in the other two quarters.
- During the course of our review, GrowFL took several steps to address our concerns about program implementation and eligibility determination. However, we recommend that future contracts with the Economic Gardening Institute include additional provisions to improve program reporting and assessment.

#### Economic Gardening Funding History

In 2009, the Legislature appropriated up to \$1.5 million to implement the Economic Gardening Technical Assistance Pilot Program during FY 2009-2010.<sup>24</sup> In 2010, the Legislature appropriated \$2 million for FY 2010-2011.

In 2011, the Legislature also appropriated \$2 million for FY 2011-2012, however, the Governor vetoed the appropriation.<sup>25</sup> In 2012, the Legislature appropriated \$2 million from the State Economic

<sup>22</sup> Section 4, ch. 2009-13, L.O.F.

<sup>23</sup> The Florida Legislature, Office of Program Policy Analysis and Government Accountability, *GrowFL Participants that Received Multiple Services and Met Eligibility Requirements Experienced Higher Growth*, Report No. 12-14, December 2012, at 1, available at <http://www.oppaga.state.fl.us/MonitorDocs/Reports/pdf/1214rpt.pdf>.

<sup>24</sup> Section 3, ch. 2009-13, L.O.F.

<sup>25</sup> See *supra* note 23 at 3.

### **Effect of Proposed Changes**

The bill removes the word “pilot” from the title of the “Economic Gardening Technical Assistance Pilot Program,” effectively making the Technical Assistance Program permanent, rather than temporary. The Department of Economic Opportunity is directed to contract with the University of Central Florida’s Institute of Economic Gardening to implement the Economic Gardening Technical Assistance Program (Technical Assistance Program). The Economic Gardening Business Loan Pilot Program remains a temporary program.

As required in current law, to be eligible to participate in the Technical Assistance Program a business must be a for-profit, privately held, investment-grade business. The bill modifies other eligibility requirements as follows:

- The business must have employed at least 10 persons but no more than 99 persons at the end of the preceding fiscal year. Current law caps the number of employees at 50 persons. The bill removes the requirement that the business has maintained its principal place of business in state for at least the previous two years.
- The business must have generated at least \$1 million but not more than \$50 million in annual revenue during the preceding fiscal year. Current law caps the generated amount of revenue at \$25 million. The bill removes the requirement that the business qualifies for a tax refund for qualified target industry businesses under s. 288.106, F.S.
- During 2, rather than 3, of the previous 5, rather than 6, years the business must have increased *either* its number of full-time equivalent employees in Florida *or* its gross revenue. Current law requires a business to have increased *both* its number of full-time equivalent employees in this state *and* its gross revenue.

An additional eligibility requirement is added to require that a business generate a minimum of 51 percent of its revenue outside Florida, be located in a rural community as defined in s. 288.0656, F.S., or be classified within a qualifying NAICS code.

The bill defines NAICS as those classifications contained in the North American Industry Classification System, as published in 2012 by the Office of Management and Budget, Executive Office of the President. The term “qualifying NAICS code” means any NAICS code within any of the following NAICS sectors:

- 31-33, Manufacturing;
- 42, Wholesale Trade;
- 51, Information;
- 52, Finance and Insurance;
- 54, Professional, Scientific, and Technical Services;
- 55, Management of Companies and Enterprises; or
- 56, Administrative and Support and Waste Management and Remediation Services.

According to GrowFL, the industries identified as a qualified target industry under s. 288.106, F.S., are captured under the NAICS codes listed above.<sup>27</sup>

## **B. SECTION DIRECTORY:**

**Section 1:** Amends s. 288.1082, F.S., relating to the Economic Gardening Technical Assistance Pilot Program, to make the Economic Gardening Technical Assistance Pilot Program permanent, rather than temporary; direct the Department of Economic Opportunity to contract with the University of Central

<sup>26</sup> Specific Appropriation 2280B, s.6, ch. 2012-188, L.O.F. (proviso language).

<sup>27</sup> See *supra* note 21.

Florida's Institute of Economic Gardening to implement the Program; revise the business eligibility requirements; define terms; and conform cross-references.

**Section 2:** Amends s. 288.1081(3), F.S., relating to the Economic Gardening Business Loan Program, to conform cross-references.

**Section 3:** Provides an effective date of July 1, 2013.

## **II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

### **A. FISCAL IMPACT ON STATE GOVERNMENT:**

#### **1. Revenues:**

None.

#### **2. Expenditures:**

None.

### **B. FISCAL IMPACT ON LOCAL GOVERNMENTS:**

#### **1. Revenues:**

None.

#### **2. Expenditures:**

None.

### **C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

To the extent that more businesses meet the eligibility requirements to receive technical assistance, the private sector will benefit.

### **D. FISCAL COMMENTS:**

None.

## **III. COMMENTS**

### **A. CONSTITUTIONAL ISSUES:**

#### **1. Applicability of Municipality/County Mandates Provision:**

Not applicable. This bill does not appear to: require counties or municipalities to spend funds or take an action requiring the expenditure of funds; reduce the authority that counties or municipalities have to raise revenues in the aggregate; or reduce the percentage of a state tax shared with counties or municipalities.

#### **2. Other:**

None.

### **B. RULE-MAKING AUTHORITY:**

None.

### **C. DRAFTING ISSUES OR OTHER COMMENTS:**

None.

#### **IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES**

On March 13, 2013, the House Economic Development & Tourism Subcommittee adopted an amendment and reported the bill favorably as a committee substitute. The amendment removed section 3 of the bill, which appropriated \$2 million in recurring funds from the General Revenue Fund to the University of Central Florida to fund the Economic Gardening Technical Assistance Program and to implement the Act during FY 2013-2014.

The analysis has been updated to reflect the amendment adopted by the subcommittee.