

## DEO Legacy Model Methodology

The Department of Economic Opportunity uses an economic impact model to analyze the projected economic benefit over ten years for each applicant requesting state economic development incentives for a project. Pursuant to s. 288.061 (2), F.S., beginning July 1, 2013, the Department must use an economic impact model established by the Office of Economic and Demographic Research (EDR) to calculate the economic benefits for each project. According to s. 288.005, F.S., economic benefits are calculated as the gains in state revenue (taxes attributable directly to the business or those generated as a result of the increased economic activity rippling through the economy) as a percentage of the state's investment in the project. The state's investments are the various incentives offered to the business via tax refund, tax credit, or cash grant.

The Department's economic impact model has been in use many years dating back to the former Florida Department of Commerce. The model has undergone significant revisions, most recently in 2010, when EDR was tasked by the Florida Legislature to review and recommend changes to the model. As charged in s. 288.061 (2), F.S., a full methodological review was completed by EDR in 2013. Economic benefits are now calculated in a manner consistent with Return on Investment (ROI) calculations. Results prior to 2013 are expressed as a Payback Ratio and are not comparable with ROI.

The Department's economic impact model uses RIMS II multipliers, developed by the U.S. Department of Commerce's Bureau of Economic Analysis, to estimate the additional economic activity (induced and indirect effects) generated by the direct economic activity of the project (direct effects). For example, the construction of a new building will lead to an increase in production in industries that supply construction materials (indirect). Construction workers will spend their paychecks in the economy buying groceries and visiting dining and entertainment establishments (induced). These ripple effects are referred to as indirect and induced economic activity. By including indirect and induced activity, the impact analysis becomes more comprehensive than typical financial impacts developed by state government.

The estimate of the direct economic activity is provided by the applicant for state economic development incentives. The applicant provides estimates of the number and timing of net new jobs to be hired by the business, the average annual wage to be paid and the amount to be invested in capital such as facilities and equipment.

The number of net new jobs and the average annual wage are used to estimate the increased company output (direct sales). The RIMS II multipliers are applied to the direct sales estimate to calculate the resulting indirect and induced sales. Effective sales and corporate income tax rates are applied to the sales estimates where applicable to determine the anticipated sales and corporate income taxes to be paid by the applicant and other businesses.

In addition to the sales and corporate income taxes that are generated as a result of the project, sales tax revenue is also generated from the project's estimated capital expenditures for construction materials, machinery and equipment and from any indirect and induced economic activity resulting from the capital expenditures.

The model calculates ROI for the ten year period by dividing the total gains in state revenue by the total incentive dollars paid to the business. In addition, the model reports estimated indirect and induced jobs attributable to the economic development project.

For additional information:

- Model assumptions
- Model calculations