

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Appropriations Subcommittee on Transportation, Tourism, and Economic Development

BILL: SB 1012

INTRODUCER: Senator Hays

SUBJECT: Economic Gardening Technical Assistance Program

DATE: April 2, 2013 REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Malcolm	Hrdlicka	CM	Favorable
2.	Pingree	Martin	ATD	Pre-meeting
3.			AP	
4.				
5.				
6.				

Summary:

SB 1012 makes the Economic Gardening Technical Assistance Pilot Program a permanent program. The bill specifically directs the Department of Economic Opportunity to contract with the Florida Economic Gardening Institute (known as GrowFL) at the University of Central Florida to implement the program. The bill expands eligibility for the program to serve more small businesses by modifying the eligibility requirements, as follows:

- The business must have employed at least 10 persons but no more than 99 (increased from 50) persons at the end of the preceding fiscal year. The bill removes the requirement that the business must have maintained its principal place of business in the state for at least the previous 2 years.
- The business must have generated at least \$1 million but not more than \$50 million (increased from \$25 million) in annual revenue during the preceding fiscal year. The bill removes the requirement that the business must qualify for the qualified target industry business program under s. 288.106, F.S.
- During 2 of the previous 6 years (rather than 3 of the previous 5 years) the business must have increased *either* its number of full-time equivalent employees in Florida *or* its gross revenue (rather than *both*).
- The business must generate a minimum of 51 percent of its revenue outside Florida, be located in a rural community, or be classified within a qualifying NAICS code.

The bill appropriates \$2 million in recurring General Revenue funds to the University of Central Florida to fund the Economic Gardening Technical Assistance Program for Fiscal Year 2013-2014.

This bill substantially amends sections 288.1081 and 288.1082, Florida Statutes.

I. 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.

The concept of economic gardening was pioneered in 1987 by the City of Littleton, Colorado, during a statewide recession.¹ It is based on research by the Massachusetts Institute of Technology (MIT) and the 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.”² These second-stage companies have grown past the start-up phase, but have not reached maturity.³ They usually generate between \$1 million and \$50 million in annual revenue and employ between 10 and 100 employees 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.⁴

Economic gardening focuses on three main elements:⁵

- *Information:* The survival and growth of small businesses depends on access to critical information. Access to free or affordable information and consulting services is extremely valuable. Economic gardening 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

¹ See Steve Quello and Graham Toft, *Economic Gardening: Next Generation Applications for a Balanced Portfolio Approach to Economic Growth* (Dec. 2006), available at http://www.sba.gov/advo/research/sbe_06_ch06.pdf (last visited March 27, 2013).

² Kelly Edmiston, Federal Reserve Bank of Atlanta, *Economic Gardening Helps Communities Grow Their Own Jobs*, Vol. 18, No. 1, 2008, at 2, available at http://www.frbatlanta.org/pubs/partners/partners-no_1_2008-economic_gardening_helps_communities_grow_their_own_jobs.cfm (last visited March 27, 2013).

³ Edward Lowe Foundation, *Economic Gardening – An entrepreneur-oriented approach to economic prosperity* (2012), available at <http://edwardlowe.org/edlowenetwp/wp-content/themes/implementprogram/downloads/infosheets/EconomicGardening.pdf> (last visited March 27, 2013).

⁴ See *supra* note 3.

⁵ See Christian Gibbons, The IEDC Economic Development Journal, *Economic Gardening*, Vol. 9, No. 3, Summer 2010 (on file with the Senate Committee on Commerce and Tourism).

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.

Florida's Economic Gardening Initiatives

In 2009, the Legislature created a two-pronged economic gardening initiative.⁶ The first component is the Economic Gardening Business Loan Pilot Program⁷ which provides low-interest, short-term loans to eligible businesses to assist them with their infrastructure, networking, and mentoring needs. The second component of the economic gardening initiative is the Economic Gardening Technical Assistance Pilot Program,⁸ 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:⁹

- 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 2 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.¹⁰
- During 3 of the last 5 years, the company has increased both its number of full-time equivalent employees and its gross revenues.

The Department of Economic Opportunity (DEO) was directed to select, by competitive bid, a third-party contractor to implement the technical assistance pilot program.¹¹ Selection criteria for the contractor included the ability to implement the 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.¹² The law also authorized the third-party contractor to promote the general business or industrial interests of the state.¹³

⁶ Chapter 2009-13, L.O.F., *codified at* ss. 288.1081 and 288.1082, F.S.

⁷ Section 288.1081, F.S.

⁸ Section 288.1082, F.S.

⁹ *See* ss. 288.1081(3)(a), F.S., and 288.1082(4)(a), F.S.

¹⁰ 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. *See* s. 288.106(4)(b), F.S.

¹¹ Section 288.1082(2), F.S.

¹² Section 288.1082(2), F.S.

¹³ Section 288.1082(6), F.S.

Twice a year, the DEO must review the third-party contractor's progress and determine if it is meeting its contractual requirements. If not, the DEO may terminate the contract and re-bid.¹⁴

The technical assistance provided by the pilot program, includes, but is not limited to:

- 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.¹⁵

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.¹⁶ Any business receiving the technical assistance must sign an agreement with the third-party contractor committing to the following minimum conditions, on a basis determined by the contractor:

- Attending a minimum number of meetings with the third-party contractor.
- Reporting job-creation data.
- Providing financial data.¹⁷

By December 31st of each year, the DEO is required to submit 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.¹⁸

University of Central Florida – Economic Gardening Institute (GrowFL)

The DEO currently contracts with the University of Central Florida (UCF) to implement the Economic Gardening Technical Assistance Pilot Program. When the contract was initially awarded in 2009, the UCF established the Florida Economic Gardening Institute (GrowFL).

GrowFL provides services for second-stage companies, including 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 is 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

¹⁴ Section 288.1082(7), F.S.

¹⁵ Section 288.1082(3), F.S.

¹⁶ Section 288.1082(4)(b), F.S.

¹⁷ Section 288.1082(5)(a), F.S.

¹⁸ Section 288.1082(8), F.S.

consultation is 40 hours and provided at no charge to the client. Work is also handled virtually with clients via conference calls and the use of an on-line collaboration system.¹⁹

Department of Economic Opportunity - Mid-Year Program Report

In December 2012, the DEO submitted a Mid-Year Program Report to the Legislature and the Governor, which covers July 1, 2012, through October 31, 2012. The report provided the following information:²⁰

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
Total Number of Companies		90

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) to review the technical assistance pilot program and its effectiveness in expanding targeted businesses, and provide a report to the Legislature and the Governor by December 31, 2012.²¹ In December 2012, OPPAGA published its report, which in summary stated:

- GrowFL experienced several implementation obstacles, including difficulty attracting participants and assessing a company's eligibility. Consequently, the program served a significant number of ineligible companies and was unable to determine eligibility for many others.

¹⁹ 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> (last visited March 27, 2013).

²⁰ Florida Department of Economic Opportunity, *Economic Gardening Technical Assistance Pilot Program (Mid-Year) Report*, December 18, 2012, at 3 (on file with the Senate Committee on Commerce and Tourism).

²¹ Section 4, ch. 2009-13, L.O.F.

- Companies that received multiple services were more likely to grow after participating in the pilot program. Most survey respondents found that the services provided by GrowFL were helpful. The OPPAGA also found eligible companies were more likely to increase employees and wages than those that did not meet the program's statutory eligibility requirements. In addition, statistical modeling showed 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 OPPAGA's review, GrowFL took several steps to address concerns about program implementation and eligibility determination. However, OPPAGA recommended future contracts with the Economic Gardening Institute include additional provisions to improve program reporting and assessment.²²

Economic Gardening Funding History

During the 2009 Special Session A, the Legislature passed a special appropriations act (Senate Bill 2-A, chapter 2009-1, Laws of Florida) that included \$10 million to implement the provisions of SB 38-A, contingent upon that bill or similar legislation becoming law. Senate Bill 38-A (chapter 2009-13, Laws of Florida) created the Economic Gardening Business Loan Pilot Project and the Economic Gardening Technical Assistance Pilot Program, effective January 27, 2009. Of the \$10 million of General Revenue funds provided in SB 2-A, section 4 of Chapter 2009-13, Laws of Florida provided that up to \$1.5 million may be used to implement the Economic Gardening Technical Assistance Pilot Program. The University of Central Florida received \$458,000 during Fiscal Year 2009-2010 and \$965,000 in Fiscal Year 2010-2011, a total of \$1,423,000, of this initial appropriation to implement the pilot program.

In Fiscal Year 2010-2011, notwithstanding the \$1.5 million "cap" provided in Chapter 2009-13, Laws of Florida, an additional \$2 million of nonrecurring General Revenue funds were provided for the Economic Gardening Technical Assistance Pilot Program in sections 53 and 55 of Chapter 2010-147, Laws of Florida. In Fiscal Year 2011-2012, while the Legislature provided \$2 million of nonrecurring General Revenue funds to continue the pilot program, the Governor vetoed the appropriation. In Fiscal Year 2012-2013, the Legislature appropriated \$2 million from the State Economic Enhancement and Development Trust Fund for the Economic Gardening Technical Assistance Program for FY 2012-2013.²³ The Governor did not veto the appropriation for Fiscal Year 2012-13.

II. Effect of Proposed Changes:

Sections 1 and 2 amend ss. 288.1081 and 288.1082, F.S., to make the Economic Gardening Technical Assistance Program (Technical Assistance Program) permanent, rather than temporary. The DEO is specifically directed to contract with the University of Central Florida's Economic Gardening Institute (known as GrowFL) to implement the Technical Assistance Program.²⁴ The DEO must review the GrowFL's progress at least once each 6 months and

²² 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, available at <http://www.oppaga.state.fl.us/MonitorDocs/Reports/pdf/1214rpt.pdf> (last visited March 27, 2013).

²³ Specific Appropriation 2280B, s.6, ch. 2012-118, L.O.F.

²⁴ The Economic Gardening Business Loan Pilot Program remains a temporary program.

determine if the institute is meeting its contractual obligations for administering the program. The department is authorized to terminate and rebid the contract if GrowFL does not meet its contractual obligations.

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 2 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 must qualify for the qualified target industry program under s. 288.106, F.S.
- During 2 of the previous 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 during 3 of the previous 5 years.
- 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 identifies the qualifying NAICS codes as 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.²⁵

Section 3 appropriates \$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 bill during FY 2013-2014.

Section 4 provides an effective date of July 1, 2013.

²⁵ According to GrowFL, the industries identified as qualified target industries under s. 288.106, F.S., are captured under the NAICS codes listed above. *See supra* note 20.

III. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

IV. Fiscal Impact Statement:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

More small businesses will be eligible to receive technical assistance through GrowFL.

C. Government Sector Impact:

The bill appropriates \$2 million in recurring funds from General Revenue to the University of Central Florida to fund and implement the Economic Gardening Technical Assistance Program during FY 2013-2014.

V. Technical Deficiencies:

None.

VI. Related Issues:

The OPPAGA report found that the current eligibility requirements were an obstacle to attracting and approving businesses and that GrowFL was serving ineligible businesses.²⁶ The changes made by the bill to expand the eligibility requirements will resolve these issues.

VII. Additional Information:

A. Committee Substitute – Statement of Substantial Changes:

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

²⁶ *Supra* note 22 at 4.

B. Amendments:

None.

This Senate Bill Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.
