
Research Report

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Economic Challenges Facing Florida's Economy and the Benefits of Economic Stimulus

Executive Summary

Florida's economy is likely facing a prolonged period of economic weakness. A package of targeted investments will help to mitigate the weakness and prepare the state's economy for healthier future growth. The economic impacts to Florida from a proposed \$615 million investment stimulus package, which is going through the legislature and has the Governor's backing, are substantial and timely. The combined elements of the stimulus package would, within an approximate 12 month time frame, support **22,800 jobs**, provide **\$937 million in labor compensation**, generate **\$2.7 billion in economic output** and **\$1.3 billion in state Gross Domestic Product (GDP)**, and **boost state tax revenues by \$69 million**. Moreover, as the majority of the investments are long-lived, the size of the state's 'capital stock'/infrastructure will increase. A larger capital stock will serve to increase worker productivity, competitiveness, and long-term economic growth in Florida.¹

I. Economic Challenges Facing Florida

Economic growth in Florida started to moderate in 2006 and has declined markedly since the spring of 2007. The decline has been led by dramatic contractions in the residential construction and residential real estate sectors and exacerbated by the global credit crisis, sharply higher energy prices, and a weakening national economy. Recent data clearly reveal that the economic slowdown in Florida has become broader and deeper, and that the state's economy is either on the verge of or already in recession.

- Private sector employment plunged by 100,000 jobs between March, 2007 and March, 2008 while total nonagricultural employment fell by 78,000 positions during this period.
- The number of unemployed workers in Florida jumped by 123,000 and the state's unemployment rate increased 1.3 percentage points to 4.7 percent between March,

¹ Empirical measures of the gains to Florida's long-term economic growth cannot be reliably made owing to the absence (for all states) of data required to estimate so-called Solow/neoclassical growth models.

2007 and March, 2008. Moreover, the unemployment rate probably understates the current level of weakness in the state's labor market, and the "jobless rate" is likely to be significantly higher than the unemployment rate.²

- Taxable sales as of February, 2008 have slumped about \$1.35 billion or roughly 4.90 percent from their 2006 peak value of \$27.7 billion.
- New housing starts have dropped 65 percent from the 2005 peak and are at their lowest level since 1992 - when the state had 5 million fewer residents.
- Sales of existing and new homes have tumbled about 56 percent and 45 percent, respectively, from their 2005 peaks.
- Housing prices have topped by approximately 20 percent and 15 percent, respectively, in the Miami and Tampa regions during the last year. Declines of similar magnitudes are occurring in many parts of the state. The wealth of Florida homeowners has suffered as a result.
- Home foreclosures statewide are running at a pace of roughly 30,000 per month in early 2008 versus about 18,000 per month at the same time in 2007.

There are strong indications to suggest that the U.S. economy is in the early stages of economic recession, losing nearly 232,000 payroll jobs in the first three months of this year. Recessionary pressures are likely to intensify in coming months and continue through the balance of the year. Unlike previous national contractions, Florida's economic slowdown will likely be deeper and longer than that experienced nationally.

II. The Need for a State Economic Stimulus Package

Although the responsibility for addressing business cycle fluctuations and the policy tools required to mitigate recessionary pressures lie mainly with the federal government, state level economic policies have a role to play as well. In the current economic environment a state economic stimulus package will serve to **complement** national initiatives and provide a badly needed 'third leg' of support for Florida. Moreover, the proposed economic stimulus package will not only dampen current economic weakness but also boost longer-term productivity, competitiveness and economic growth in Florida without adding undue stress to the state's budget.

The Economic Stimulus Package favorably complements, but does not substitute for, the national monetary and fiscal stimuli being provided by the Federal Reserve and the Bush Administration, respectively. Monetary policy is yielding lower interest rates, while the Bush Administration's fiscal stimulus plan focuses on tax rebates and incentives for business

² Jobless rate refers to the share of persons of working age that are not employed. Some of those persons may not be in the labor forces for a variety of reasons, but includes "discouraged workers" and the chronically unemployed.

equipment investment. Florida's families, consumers, and businesses should benefit from these measures.

Adding infrastructure investments to the national monetary and fiscal policy stimuli will provide a third leg of support to Florida's economy. Lower interest rates and lower taxes (in the form of rebates) work **indirectly** to stimulate the economy. Consumers and businesses must refinance existing fixed rate debt and/or assume new debt to take advantage of lower interest rates. One-time tax rebates may primarily be either saved or used to pay down debt. In contrast, state government investment spending will **directly** boost the demand for goods and services creating jobs and increasing incomes in the process.

The economic stimulus package meets in all respects widely acknowledged criteria for such programs. Specifically:

Timeliness: The need for stimulus has been recognized. Implementation can soon follow and can occur through existing channels without creating additional bureaucracy.

Targeted: The package identifies particular programs for accelerated and additional state investment spending where a need is generally acknowledged to already exist.

Temporary: The package calls for one-time investments as opposed to new programs.

Transparent: Estimated economic impacts are large relative to the public sector budget cost, should generate favorable and visible impacts sooner rather than later, and provide stimulus to those economic sectors most affected by the economic downturn.

III. The Economic Benefits of a \$615 Million State Stimulus Package

We have analyzed the economic impacts of a short-term stimulus package that possesses the characteristics noted above. This \$615 million fiscal package is oriented toward accelerated capital infrastructure projects financed primarily through trust funds or utilizing accumulated financial reserves. The package consists of \$300 million in roadway improvement projects, \$225 million in affordable housing incentives to stimulate the residential construction sector, \$60 million in water infrastructure projects, \$15 million to strengthen the state's commercial space program, \$10 million to assist seaport operations, and \$5 million of tourism marketing programs.

- The economic impacts to Florida from the proposed stimulus package are substantial and timely. The combined elements of the stimulus package would support **22,800 jobs**, provide **\$937 million in labor compensation**, and generate **\$2.7 billion in business revenues** and **\$1.3 billion in state GDP**. (See table of impacts below.)

- The economic impact estimates were prepared using a Florida extended input-output economic simulation model developed using IMPLAN modeling software.³

Each of the components of the stimulus package affects a different and important sector of Florida's economy.

Recommendation: Expend \$300 million from the Transportation Trust Fund on “ready-to-go” road improvement projects. The economic stimulus from this recommendation directly affects jobs and payroll in the construction sector, but indirectly benefits Florida suppliers of goods and services that serve this industry and supports consumer spending in the state's economy, providing income and employment opportunities throughout the economy. The total economic impacts⁴ from this component of the stimulus package are:

- 4,400 jobs
- \$190 million in labor compensation; \$43,400 per job
- \$519 million in economic output or business revenues
- \$260 million in state GDP

Recommendation: Expend \$225 million from the Sadowski Affordable Housing Trust Fund to allow local governments to work with public-private partnerships to build affordable housing for working families. This program works with the private sector and its most common homeownership strategies involve: (1) purchase assistance through second position loans or grants; (2) rehabilitation funds for major repairs; and (3) new construction partnerships with developers who build affordable housing units. Nearly 90 percent of these funds are directed towards construction activities. This program successfully leverages public sector investments and the typical dollar of public funding results in \$4 to \$5 of total investment. The total economic impacts from this component of the stimulus package are:

- 15,500 jobs
- \$642 million in labor compensation; \$41,300 per job
- \$1.9 billion in economic output or business revenues
- \$918 million in state GDP

Recommendation: Expend \$60 million from the Water Protection and Sustainability Trust Fund for development of supply solutions to meet Florida's growing demand for water. Investments in alternative technologies such as reclamation, desalinization, and collection and storage of rainwater will be required to meet the state's future needs. The total economic impacts from this component of the stimulus package are:

- 987 jobs
- \$39 million in labor compensation; \$39,700 per job
- \$104 million in economic output or business revenues
- \$54 million in state GDP

Recommendation: Expend \$15 million from accumulated, state financial reserves to stimulate and encourage the commercial space industry within Florida. It has been estimated

³ For more information about IMPLAN modeling software, see www.implan.com.

⁴ The total economic impacts refers to the direct impact, the indirect impacts from supply-chain relationships among Florida firms, and the induced impact from the spending of labor income generated by the direct and indirect effects.

that aerospace is a \$2 billion industry in Florida. Investments in refurbishing the launch pads at Cape Canaveral will help retain a high quality and highly trained workforce in Florida. The total economic impacts from this component of the stimulus package are:

- 279 jobs
- \$12 million in labor compensation; \$43,000 per job
- \$27 million in economic output or business revenues
- \$16 million in state GDP

Recommendation: Expend \$10 million from accumulated, state financial reserves to provide assistance to Florida's seaports that will allow them to remain competitive. The burden of federally mandated security has largely fallen on the local governments that operate the seaports, leaving them with fewer financial resources to make the investments needed to keep their competitive edge. The total economic impacts from this component of the stimulus package are:

- 225 jobs
- \$10 million in labor compensation; \$44,100 per job
- \$20 million in economic output or business revenues
- \$13 million in state GDP

Recommendation: Expend \$5 million from accumulated, state financial reserves to take advantage of international tourism market opportunities. The declining value of the U.S. dollar has stimulated additional overseas visitors but additional marketing resources are needed to tap opportunities in new foreign markets. We anticipate that each dollar of marketing investment may yield \$10 of additional tourism spending within Florida. The total economic impacts from this component of the stimulus package are:

- 1,400 jobs
- \$44 million in labor compensation; \$31,800 per job
- \$94 million in economic output or business revenues
- \$62 million in state GDP

Economic Impacts from Governor and Legislative Stimulus Package

Direct, Indirect, and Induced Impacts¹

Stimulus Component	Stimulus	Employment	Labor Compensation	Average Compensation	Economic Output	Florida GDP
	<i>Million 2008 \$</i>	<i>Jobs</i>	<i>Million 2008 \$</i>	<i>2008 \$</i>	<i>Million 2008 \$</i>	<i>Million 2008 \$</i>
Road Development Projects	300.0	4,387	190.3	43,377	519.4	260.4
Affordable Housing Projects ²	225.0	15,533	641.5	41,302	1920.5	917.7
Water Supply Projects	60.0	987	39.2	39,742	104.2	54.2
Space Center Infrastructure	15.0	279	12.0	42,968	26.7	16.2
Port Operations ³	10.0	225	9.9	44,061	19.7	13.0
Tourism Marketing ⁴	5.0	1,395	44.3	31,756	94.0	62.2
Impact of Total Stimulus Pkg. ⁵	615.0	22,807	937.3	41,097 ⁶	2,684.4	1,323.8

Notes:

1. Economic impacts were prepared using a Florida, extended input-output multiplier model using IMPLAN modeling software.
2. Economic impacts are based on average affordable housing incentive providing 20% of purchase price and 90% of state funding, net of administrative cost, directed to residential construction activity. \$1 of public sector investment supports \$4.40 of total investment.
3. Stimulus providing financial support to assist with federally mandated security requirements or other operating expenses.
4. Assumes a gross return of \$10 in tourism spending per \$1 of marketing effort.
5. Numbers may not add to totals due to rounding.
6. Average compensation is a weighted average of employment and labor compensation per stimulus component.

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About Florida TaxWatch

Florida TaxWatch is a statewide, non-profit, non-partisan taxpayer research institute and government watchdog that over its 29 year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Its mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies, and programs, and to increase the productivity and accountability of Florida Government.

Florida TaxWatch's research recommends productivity enhancements and explains the statewide impact of economic and tax and spend policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policymakers and government employees implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than \$6.2 billion -- approximately \$1,067 in added value for every Florida family, according to an independent assessment by Florida State University.

Florida TaxWatch has a historical understanding of state government, public policy issues, and the battles fought in the past necessary to structure effective solutions for today and the future. It is the only statewide organization devoted entirely to Florida taxing and spending issues. Its research and recommendations are reported on regularly by the statewide news media.

Supported by voluntary, tax-deductible memberships and grants, Florida TaxWatch is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch bring about a more effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, large corporations, philanthropic foundations, professionals, associations, labor organizations, retirees -- simply stated, the taxpayers of Florida. The officers, Board of Trustees and members of Florida TaxWatch are respected leaders and citizens from across Florida, committed to improving the health and prosperity of Florida.

With your help, Florida TaxWatch will continue its diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer, who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and government agencies are more responsive and productive in the use of your hard-earned tax dollars.

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