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Economic Impact Analysis of Florida's Manufacturing Sector

Executive Summary

Florida's manufacturing sector (which represented 5 percent of total state employment in 2007) has grown slightly in terms of production over the past decade – despite declining employment within a majority of manufacturing sub-sectors. However, despite the growth, the relative size of the sector within the state economy has shrunk during the same time period, which may be due, in part, to the lack of attention on manufacturing in Florida – especially compared to other sectors such as the agriculture sector (which represented less than 1 percent of Gross State Product (GSP) in 2007).

The manufacturing sector contributed 5 percent to the 2007 Florida GSP. This share was down from 7 percent in 1997; but in terms of fixed 2007 dollars it increased from $34.5 billion to $36.6 billion during the same period. The decline in percentage share was likely due to the growth in other industries – such as the real estate sector, which grew significantly and accounted for 17 percent of GSP, or $126 billion, in 2007.

Manufacturers have been doing more with less over the past decade. With fewer workers, there has still been a 27 percent growth in output per worker hour. In addition, it is due to the manufacturing sector – which represented 93 percent of all exported goods in 2007 – that Florida is one of only a handful of net exporting states.

In 2008, a Conexus-Indiana study ranked Florida 13th in terms of overall tax burden, but 3rd best in terms of the state manufacturing climate. This ranking is based on a number of factors, including state taxation policies, healthcare costs, and employee educational pools.

The manufacturing sector sales and use tax exemptions have been estimated at $363 million FY 2008-09 – excluding 212.06(5)(a), the tangible personal property imported or produced for export, which would result in double-taxation if repealed. Florida's manufacturing-related sales and use tax exemptions are not as favorable as those provided to the sector by many competitor states.

Florida provides only a partial exemption for manufacturing machinery and equipment purchases. Only new or expanding businesses are eligible for this tax incentive – compared to the *complete* exemptions that are not limited to specific business types offered by four competitor states analyzed in this study. The pollution control equipment exemption in Florida

is only for required equipment. On the other hand, a number of other states offer exemptions on all such equipment, regardless of requirements.

This Florida TaxWatch study includes an econometric impact modeling program (Regional Economic Models, Inc. (REMI)) that analyzes the manufacturing sector's future potential affect on Florida's economy. A set of three scenarios were developed, based on the historical production and success of the state's manufacturing industry outputs.

First, if current trends continue, then the Florida manufacturing sector is projected to directly/indirectly contribute to 1.1 million jobs in 2009; which is projected to increase up to 1.4 million jobs in 2018. In 2009, the sector is expected to account for $122 billion in GSP and $216 billion per year by 2018. Also, manufacturing is projected to increase annual state output from $252 billion in 2009 to $424 billion in 2018 and is expected to directly/indirectly contribute $45 billion to the state's total exported goods in 2009 and as much as $60 billion in 2018.

The second scenario involves repealing the tax incentives that Florida currently provides for manufacturing. There has been much discussion of reviewing and possibly repealing a variety of sales and use tax exemptions as an answer to filling budget holes and relieving the stresses placed on the state by one of the most severe economic recessions since the Great Depression in the 1930s. However, if the identified manufacturing tax incentives are eliminated, it would result in a net loss (after controlling for changes in government spending) of more than 3,300 Florida jobs, $980 million in GSP, $2.3 billion in state output, and $200 million in exported goods by 2018. One of the most important aspects of these figures is that these amounts are *after* controlling for the government spending that would result from the increase in tax revenues – which means that there is a *net loss of these amounts* and **government's spending would not outweigh the benefits to the state and people of Florida of retaining these exemptions**.

A third scenario was developed by Florida TaxWatch through REMI analysis that examined the benefits to the state if the Legislature provided a 10 percent Capital Investment Incentive to the manufacturing sector. This incentive is used as a standard proxy for various tax incentives provided to the private sector that are intended to increase capital formation, job creation, and the overall economic health of the state. Under this scenario, the manufacturing sector would directly or indirectly create a net (after considering reduced government spending) of *at least* an additional 5,500 jobs for Floridians, nearly $1.0 billion in GSP, $2 billion in state output, and $200 million in exports by 2018.

Therefore, upon review of the current economic conditions and potential fiscal outlook scenarios, Florida TaxWatch recommends that the Florida Legislature retain the current sales and use tax exemptions on which Florida's manufacturing sector depends as a primary method of remaining a viable and competitive source of commerce, employment, and above average wages in the state.

Introduction

Manufacturing output in Florida has grown exponentially since 1977, with its contributions to the gross state product (GSP) increasing from $20.0 billion[1] to nearly $36.6 billion by 2007. On the other hand, employment in the Florida manufacturing sector has grown at a less dramatic pace, from 358,000 in 1977 to 388,283 in 2007, with a height of 499,300 in 1987[2]. Recessions have a large impact on the manufacturing sector, as fewer products are demanded in the market, leading to lost jobs, wages, and tax revenues and a diminishing productivity of workers and trade. Furthermore, the impacts felt by the manufacturing sector result in a ripple effect of indirect and induced economic impacts that negatively affect many other sectors of the Florida economy.

The current definition and landscape of manufacturing has evolved from what many would consider its more recent roots during the Industrial Revolution of the 19th century. Many consider manufacturing as centering on the production and creation of goods, from raw materials to final product, and a repetition of this process. This is but one of many factors in today's much more complex manufacturing sector that involves research, design, and development of new ideas, the logistics of marketing, sales and distribution, and post-sale services, such as customer service response centers. The ability to successfully perform all of these tasks and adapt to new realities plays a determinative role in whether or not a company will sink or swim. Each phase of the manufacturing process is constantly transforming. The production method of goods and services changes with the introduction of new technologies and the world market's demand for higher quality.

Aside from a company's internal functionality, the growth of the world market, globalization, has also been noted as having a large impact on manufacturing operations. Cheaper labor and raw materials costs attract firms away from the Florida – and the United States. Many companies see foreign markets as a cost-efficient resource that can be utilized as a way to increase profit margins by concentrating their efforts in countries that have less restrictive labor laws, living and occupational safety laws, or are simply closer to the source of the materials necessary to produce desired goods and services. For example, the average weekly wage for an employee in Florida's manufacturing sector in 2006 was approximately $879[3], as compared to $110 in Mexico. Table 1 presents a number of other countries' average weekly wage data for 2006. The United States average weekly wage (based on hourly wages for a full 40-hour week) is below many of the current EU countries, but is far greater than other competitors, such as Brazil, the Philippines, or Taiwan.

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[1] 1977 GSP is adjusted by the Gross Domestic Product Implicit Price Deflator for 2007
http://www.bea.gov/regional/gsp Last Retrieved 1-20-09
http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=13&ViewSeries=NO&Java=no&Request3Place=N&3Place=N&FromView=YES&Freq=Year&FirstYear=1977&LastYear=2008&3Place=N&Update=Update&JavaBox=no%20 Last Retrieved 2-26-09

[2] 1994 U.S. Census Bureau Annual Survey of Manufacturers

[3] U.S. Bureau of Labor Statistics

Table 1: Comparison of International Weekly Wages 2006	
Country	**Weekly Wage**
Norway	$1,642.00
Denmark	$1,418.00
Germany	$1,368.40
Netherlands	$1,293.60
Belgium	$1,274.00
Sweden	$1,272.00
Switzerland	$1,226.80
Austria	$1,218.40
Finland	$1,196.00
Luxembourg	$1,109.60
United Kingdom	$1,084.00
Australia	$1,045.60
Ireland	$1,038.40
Canada	$1,029.60
Italy	$1,002.80
France	$996.00
United States	$952.80
Japan	$808.00
Spain	$753.20
Greece	$644.00
Korea, Republic of	$588.80
New Zealand	$578.80
Israel	$519.20
Singapore	$342.00
Portugal	$306.00
Czech Republic	$270.80
Taiwan	$257.20
Hungary	$251.60
Hong Kong SAR	$231.20
Poland	$199.60
Brazil	$196.40
Mexico	$110.00
Philippines	$42.80

Source: U.S. Bureau of Labor Statistics, *International Comparisons of Hourly Compensation Costs in Manufacturing, 2006* and Florida TaxWatch

One of the largest influences on the decline of the growth in the U.S. manufacturing industry over the past 30 years has been the introduction of new markets across the globe. China, Russia, Brazil, and other countries (such as those on the African continent) have arisen in the past two to three decades as a source of direct competition to the once-impenetrable United States' share of the world manufacturing products market. These countries have made it a top priority to expand educational opportunities, increase the consumer culture within to assist in fostering the ability to produce higher quantities, while exporting them throughout the world, and to create new jobs for their increasing populations. Not only is the United States' market share contracting as new markets are expanding, but the costs associated with the production of goods are creating a much more aggressive and challenging environment for U.S. and Florida manufacturers to compete.

The rate of technological expansion has also assisted companies in relocating jobs to less expensive areas. With the information superhighway paving roads via the internet – to locations

where few vehicles may actually be able to travel – the world is quickly becoming a smaller place in which to flourish and compete. An increased level of capital investment and accessibility to machinery, parts, and equipment across the world has made once limited opportunities available to billions of people. The flattening of world communications, brought about by the expansion of technology, may be best seen through customer service representatives that are often outsourced to other countries, such as India.

The creation of trade organizations and treaties, such as the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA), have altered tariff and trade limits and restrictions, bringing with them both benefits and detriments for the manufacturing industries of Florida and the U.S. For example, the tariff rate of Organization for Economic Cooperation and Development (OECD) countries has declined from 40 percent in the 1940s to about 5 percent today. Meanwhile, trade has increased at a rate of nearly 6 percent per year, with a majority of the activity (approximately 60 percent) concentrated in manufacturing goods and services.

The benefit of global, political, and economic inclusiveness and development arises from the ability of manufacturers to import a larger variety of raw and intermediate materials at a lower cost from new or (now) more competitive sources, while enjoying a wider range of potential consumers. The detrimental aspect of this scenario is that imports have been increasing, as an influx of cheaper goods from other countries, such as China, have flooded the American (and world) markets. As more and more goods and services are imported there is less need for American production and demand for American-made goods. Therefore, American operations are either closed or relocated, resulting in fewer jobs and a negatively impacted U.S. economy.

The import-export gap (trade deficit) has been steadily increasing in recent years and recent estimates[4] show a negative trade balance for the United States of more than $677 billion, or 4.7 percent of GDP, in 2008 alone. The balance of trade for the U.S. has been negative since at least 1987. Annual imports dramatically increased between 1997 and 2008 by about 142 percent (nearly $1.5 trillion), while exports have failed to keep the same pace, increasing only 97 percent ($908 million increase).

However complicated the world and national manufacturing industries may be, it is paramount that Florida develop its own resources and capabilities to ensure that Florida manufacturers are able to stay competitive in the world (and, as is becoming more and more the case, other states within the domestic market). In doing so, it is essential to promote hospitable tax policies which encourage capital formation and job creation/expansion within Florida. To this end, Enterprise Florida supports these efforts by providing information and data on employment, taxes, relocating, trade, and profiles of major industry sectors in the state. A number of these figures and data will be used in various parts of this study, but the aid that it will provide to the business

[4] http://www.census.gov/foreign-trade/balance/c0015.html#2008 Last Retrieved on 2-23-09

community and the citizens of Florida through economic and environmental education will be profound.

In this research report, Florida TaxWatch will examine and detail the manufacturing sector by walking the reader through the economic data related to Florida and its regional and comparable state competitors. Data for competitor states within the region, such as Georgia, North Carolina, and Louisiana, will be couched with those data for Florida and comparable states throughout the country (California, New York, and Texas) to determine how our state measures up to those within the domestic market with which Florida must compete.

A number of national studies, such as the Conexus Indiana Report Card[5], have been conducted in recent years. Florida TaxWatch will compile and explain why Florida's manufacturing sector has grown in its compression and become what many have come to consider an "A" state in which the manufacturing sector can conduct a successful business.

The primary economic indicators through which the impact of manufacturing will be evaluated include:

1. Employment
2. Production and Productivity Trends
3. Import/Export Trends
4. Tax Policies and Payments

Following the profiling of the sector, Florida TaxWatch will utilize the Regional Economic Models, Inc. (REMI) tool to estimate and project the economic impacts that the current manufacturing sector and a potential stimulus package for the sector may have on the state of Florida. The conclusion of the study will include an analysis of descriptive data and REMI model findings, as well as suggested next steps.

The most recent and complete annual data sets for majority of data elements include the 2007 year. The U.S. Census Bureau has yet to officially release the *2007 Manufacturer's Survey*, but is scheduled to do so in March of 2009. As such, the most current data available for some of the tables that follow is the 2006 year. Other data sets are available for 2008, but since they do not encompass the entire year and would need to be projected out in an unpredictable and unstable economic year, these data sets will not be included within the study.

[5] http://cms.bsu.edu/Academics/CentersandInstitutes/BBR/~/media/83F126DC3C234420A3C6665AB9374829.ashx Last Retrieved 2-10-09

Manufacturing Employment

Florida has experienced mild fluctuations in employment, by sub-sector, over the past decade (1997-2007). Chart 1 shows the most recent available year's employment by two-digit North American Sector Classification System (NAICS)[6] sector code. Compared to construction – which represented 7.5 percent of all Floridian employment and wholesale trade, which represented 4.5 percent – manufacturing represented an average 4.9 percent of all employment in Florida in 2007. However, manufacturing employment as a part of all Floridian employment declined from 7.2 percent to 4.9 percent since 1997 – while construction increased from 5.5 percent to 7.5 percent and wholesale trade remained steady at 4.5 percent. Please see an additional chart of annual percentages of total Florida Employment for selected economic sectors in Appendix A.

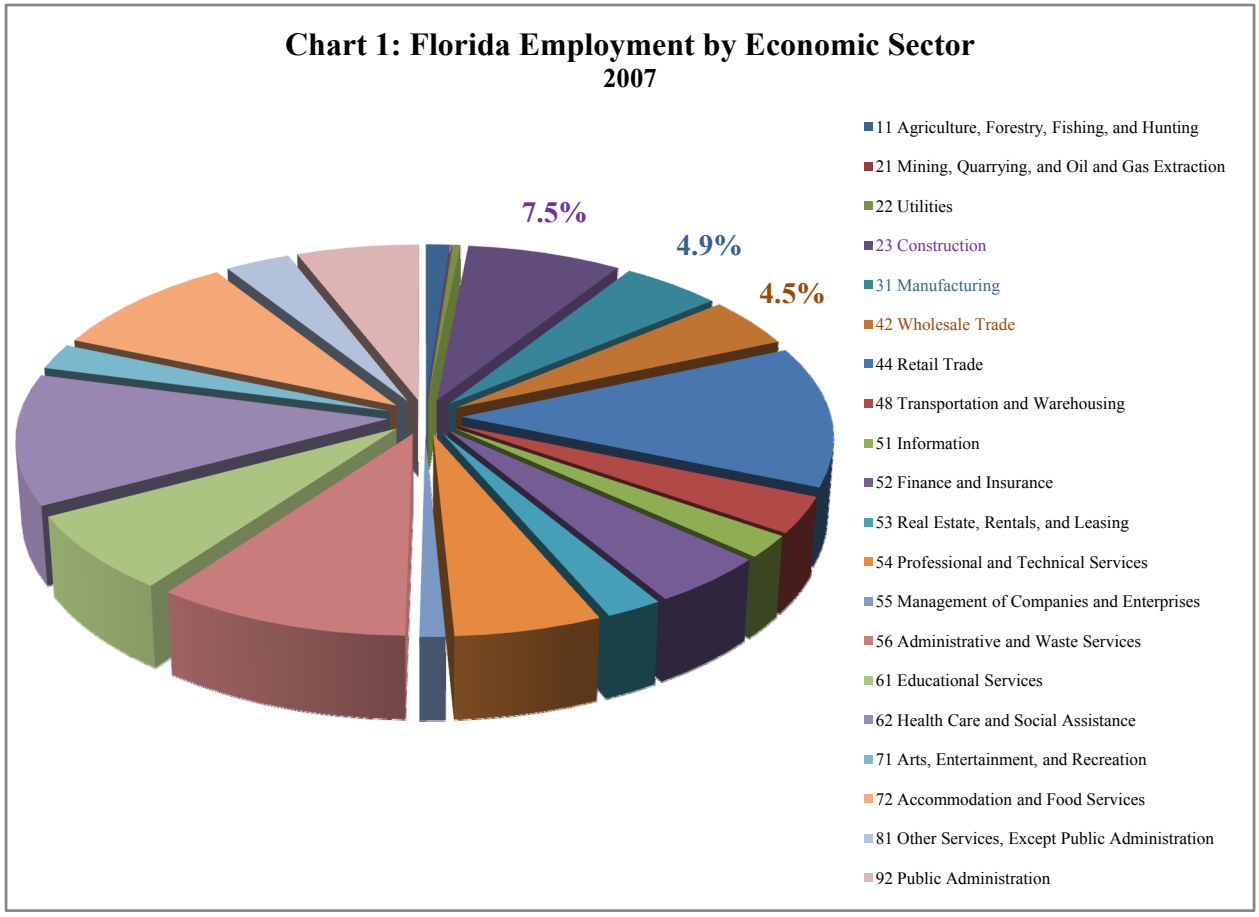
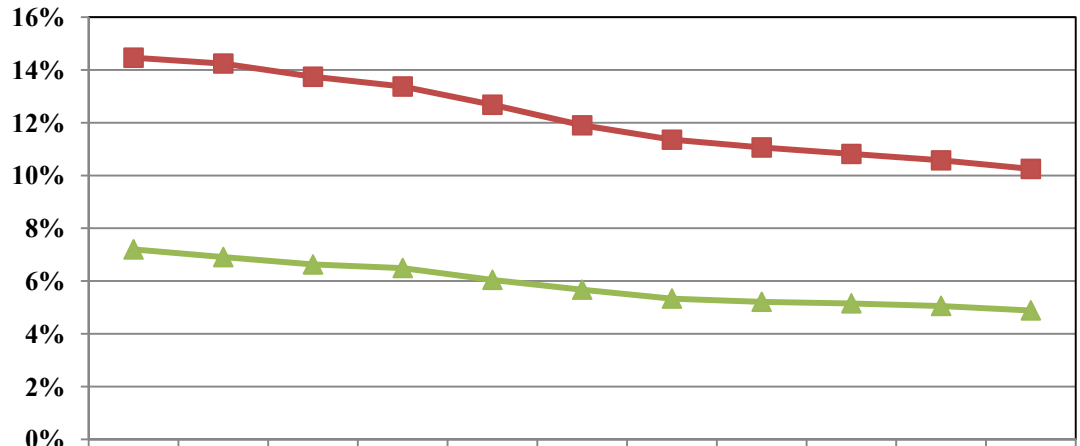


Chart 2 demonstrates the decline in total workforce representation by the manufacturing sector through a comparison of Florida's percentage to that of the United States. As mentioned in the introduction, Florida mirrored the trend of the United States, although its overall decline was not

[6] North American Sector Classification System (NAICS) is the standardized system that was jointly developed by the U.S., Canada, and Mexico to provide new comparability in statistics about business activity across North America. The U.S. Bureau of Labor Statistics, the U.S. Bureau of Economic Analysis, and U.S. Census Bureau are examples of entities that utilize this classification methodology.

as drastic. This was likely due to higher employment concentrations in other sectors, such as construction.

Chart 2: Percent of Total Workforce that is Manufacturing
1997 - 2007



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
United States	14.5%	14.2%	13.7%	13.4%	12.7%	11.9%	11.4%	11.1%	10.8%	10.6%	10.3%
Florida	7.2%	6.9%	6.6%	6.5%	6.0%	5.7%	5.3%	5.2%	5.2%	5.1%	4.9%

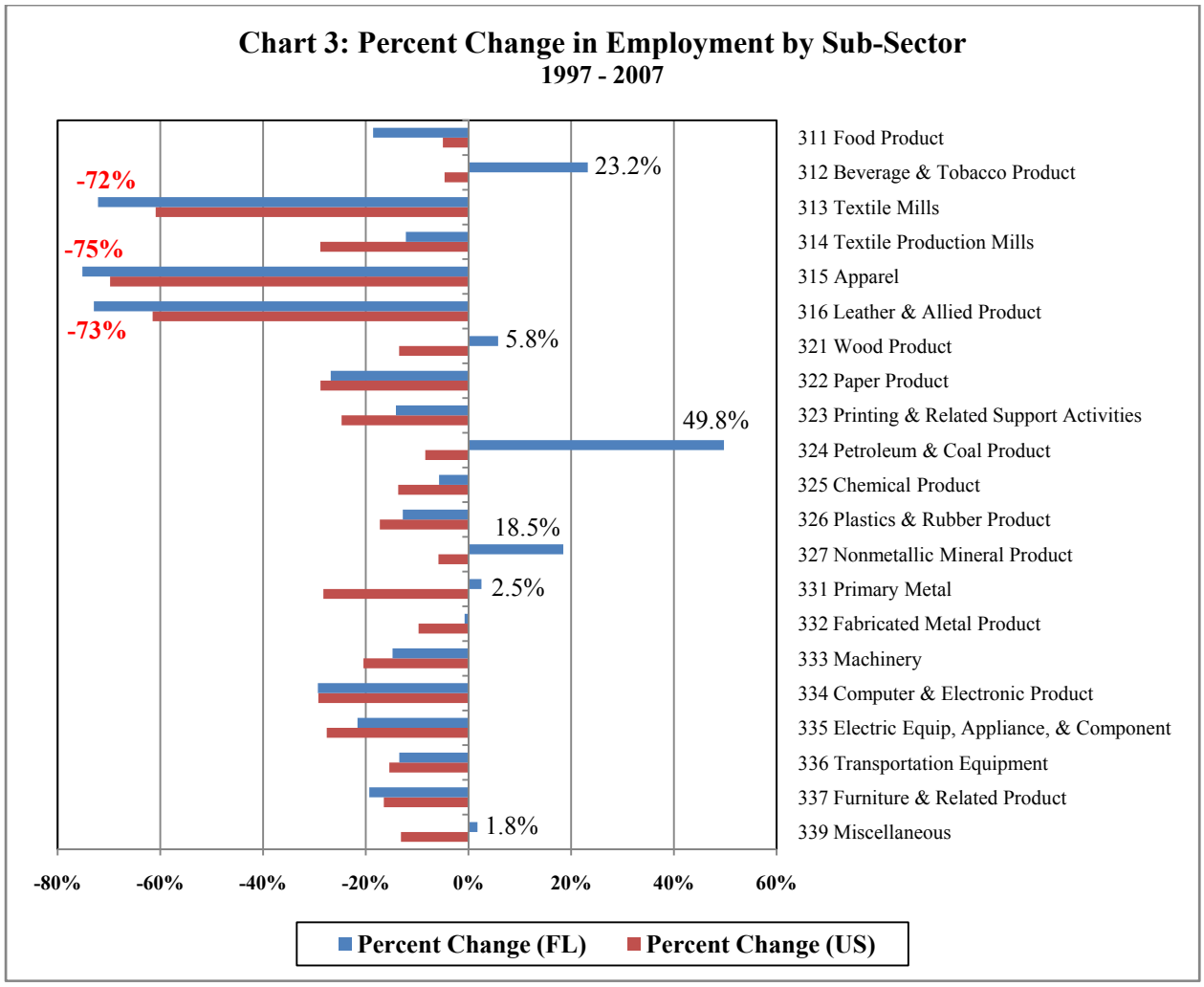
Source: U.S. Bureau of Labor Statistics and Florida TaxWatch

As Chart 2 shows, Florida's manufacturing sector, as represented by a percentage of total state employment declined from 7.2 percent to 4.9 percent – from 456,000 jobs to 388,000 over the 1997 to 2007 period. Manufacturing employment has suffered in recent years, while other sectors have grown (e.g. construction and professional & technical services; 2 percent and 1 percent growth in shares of total employment, respectively). As one of only four industries within Florida that experienced a decline in employment since 1997[7], manufacturing's total job losses of nearly 68,000 did not compare favorably to the job growth in other sectors, such as construction (247,000), health & social assistance (208,000), or retail trade (157,000).

Chart 3 breaks down Florida manufacturing employment data by sub-sector[8] to display where the losses occurred. Chart 3 shows the percentage change in employment between 1997 and 2007, by sub-sector. As can be seen, Florida's sub-sector employment once again followed national trends. Very few manufacturing sub-sectors – such as beverage & tobacco product, wood product, petroleum and coal product, nonmetallic mineral product, primary metal, and miscellaneous sub-sectors (NAICS codes 312, 321, 324, 327, 331, and 339) – experienced actual *increases* in total workforce numbers. On the other hand, the clothing and apparel sub-sectors are shown to have led the majority of manufacturing sub-sectors that suffered job losses (specifically textile mills, apparel, and leather & allied product sub-sectors).

[7] Agriculture, Forestry, Fishing & Hunting: 14,600 jobs lost; Utilities: 3,300 jobs lost; Mining, Quarrying, and Oil & Gas Extraction: 2,100 jobs lost

[8] Please visit http://www.bea.gov/regional/definitions for explanations of sub-sectors; Last Retrieved 2-10-09



Source: U.S. Census Bureau and Florida TaxWatch

Clothing-related sub-sectors had the largest percentage declines; but this may be due, in part, to the fact that their total representations in actual employment numbers were smaller. Conversely, computer and electronics product manufacturing (NAICS 334) employment numbers have declined the most dramatically, while the percentage decrease was only about 30 percent.

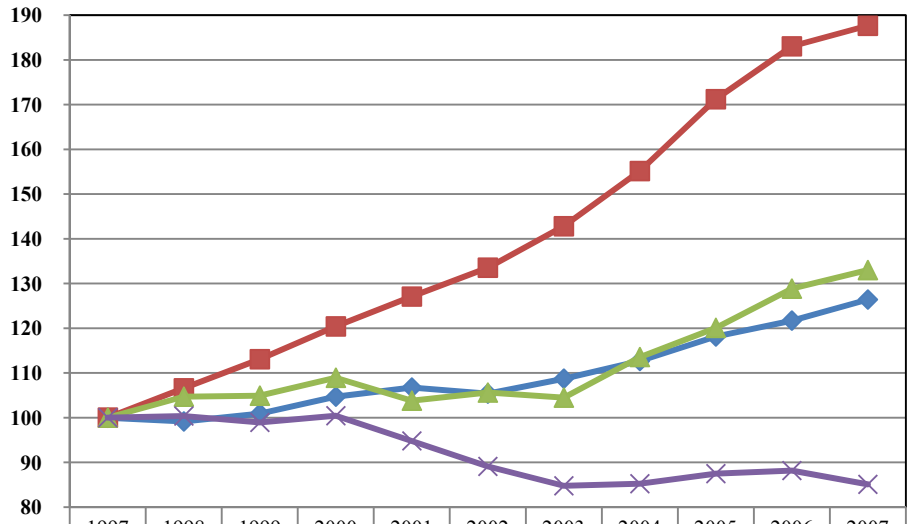
Production and Productivity Trends in Manufacturing

Although employment in some sectors – such as manufacturing –decreased across the state in recent years, the data retrieved from the U.S. Bureau of Economic Analysis (BEA) reveal that the overall economy of Florida grew between 1997 and 2007.

Chart 4 depicts Florida's manufacturing sector growth, relative to a number of economic factors. The industrial production volume indices (red line) represent the growth of all industries in the state of Florida between 1997 and 2007. One of the sectors included within this total is manufacturing. The cost of production (for all industries in the southeast region; blue line)

increased at a similar pace as manufacturing output (green line). The purple line indicates a decreased employment index for Florida.

Chart 4: Florida Manufacturing Output Indices
(1997 = Base Year of 100.0)



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Producer Price Index	100.0	99.2	100.9	104.7	106.8	105.4	108.7	112.7	118.1	121.7	126.4
Industrial Production Volume	100.0	106.6	113.1	120.4	127.1	133.5	142.8	155.1	171.2	183.0	187.6
Manufacturing Output Volume	100.0	104.7	104.9	108.9	103.8	105.6	104.5	113.5	120.1	128.9	133.0
Manufacturing Employment	100.0	100.4	98.9	100.4	94.8	89.1	84.8	85.3	87.5	88.2	85.1

Source: U.S. Bureau of Labor Statistics, U.S. Census Bureau, and Florida TaxWatch
Note: Industrial Production Price Index is for Southeast Region Finished Goods; all other data are specific to Florida
Note: Industrial Production Volume is for All Sectors of Florida Economy; Manufacturing Output Volume is specific to Manufacturing Sector

Chart 4 demonstrates how the manufacturing sector is more sensitive to changes in the economic environment than other sectors, as the index for all sectors appears to be more absorbent of these adjustments (red line) when compared to manufacturing by itself (green line). For example, in this chart the sector's response to an increase in the cost of production would appear to be that they are forced to cut positions and lay off production workers.

It can also be inferred from this chart that a small change in tax policy may have significant implications. For example, the removal of a small exemption could decrease the ability of manufacturers to continue producing at their current level – thus disabling them from continuing employment at current levels. However, the opposite may also be the case; in that a tax break may lead to increased productivity as intermediate goods, equipment, and research and development costs go down – which will lower the embedded cost of production and create an increase in demand for workers.

Table 2 shows each manufacturing sub-sector's most recent employment data, as provided by the U.S. Bureau of Labor Statistics (BLS). The data present a comparison of how Florida is performing relative to the United States.

For example, in the food manufacturing sub-sector (311), Florida represents 4 percent of all establishments in the country, while it only represents 2.1 percent of the respective employment. The average annual salary for an employee in this sub-sector is nearly $39,000 — more than $1,000 above the national average. However, this example is one of only two manufacturing sub-sectors that can boast this advantage over the national average, which negatively impacts any competitive edge or prospects in attracting these employees to the state.

In fact, Florida may be more competitive in this regard, since higher wages may attract more workers – but, at the same time, they may also discourage firms from relocating in the state.

Florida averages about 23 employees per manufacturing establishment, as compared to the national average of around 38 employees. Not only are Florida manufacturers making ends meet and comparatively outperforming most competitors in other states, but they are often times doing it with less. However, it should be cautioned that this could be due to differences in the types of manufacturing industries in Florida.

Table 2: Manufacturing Establishments, Employment, and Wages in Florida for 2007

NAICS CODE	Manufacturing Sub-Sector	Establish.	Percent of U.S.	Employees	Percent of U.S.	FL Avg. Annual Pay Per Worker	U.S. Avg. Annual Pay Per Worker
31-33	**All Manufacturing Sectors**	**16,935**	**4.7%**	**388,283**	**2.8%**	**$47,457**	**$53,544**
311	Food	1,143	4.0%	30,826	2.1%	$38,862	$37,847
312	Beverage & Tobacco Product	167	3.4%	11,096	5.6%	$49,445	$53,220
313	Textile Mills	142	3.8%	1,237	0.7%	$35,727	$36,477
314	Textile Production Mills	557	6.9%	5,462	3.4%	$30,755	$32,506
315	Apparel	314	3.4%	4,513	2.1%	$27,199	$33,036
316	Leather & Allied Product	67	4.9%	1,014	3.0%	$35,422	$36,960
321	Wood Product	657	3.8%	16,995	3.3%	$34,983	$35,303
322	Paper	218	3.5%	10,152	2.2%	$54,566	$54,609
323	Printing & Related Support Activities	2,168	6.1%	23,435	3.7%	$36,931	$43,335
324	Petroleum & Coal Products	72	3.0%	3,064	2.7%	$52,057	$93,694
325	Chemical	638	4.0%	20,245	2.4%	$56,022	$77,465
326	Plastics & Rubber Products	553	4.0%	14,683	2.0%	$37,191	$42,396
327	Nonmetallic Mineral Product	1,227	6.6%	26,226	5.2%	$49,255	$46,666
331	Primary Metal	185	3.1%	5,405	1.2%	$43,933	$56,548
332	Fabricated Metal Product	2,207	3.6%	39,485	2.5%	$39,772	$46,048
333	Machinery	909	3.0%	25,607	2.2%	$51,245	$56,242
334	Computer & Electronic Product	833	4.4%	48,574	3.8%	$69,246	$85,537
335	Electric Equip, Appliance, and Component	345	4.7%	9,495	2.2%	$42,644	$51,690
336	Transportation Equipment	910	5.8%	44,178	2.5%	$52,677	$62,632
337	Furniture & Related Product	1,699	7.3%	16,695	3.2%	$33,977	$35,652
339	Miscellaneous	1,927	5.9%	29,898	4.7%	$46,190	$49,429

Source: United States Bureau of Labor Statistics and Florida TaxWatch

Table 3 compares Florida's hourly manufacturing sector wages, value added per worker hour, and total number of hours worked by manufacturing employees with all states and the District of Columbia in 2006, with primary ranking determined by hourly wage. Michigan, a heavily unionized state, ranks first, though its value added ranks in the bottom third among all states and total hours worked is in the top 10.

One conclusion that can be inferred is that Michigan is one of the most expensive states for manufacturing employers. On the other hand, Florida's wage rank is 43rd, value added amount is near the median, and hours rank in the top 15 lend to the conclusion that the state is much friendlier to manufacturing employers. It should also be noted that Florida is a right to work state (Florida Constitution, Article 1, Section 6). Therefore, employment costs are kept low due to limited influence of organized labor on wages and contracts.

Table 3: Wages and Output of Production Workers in Manufacturing (2006)

Rank		Wage Per Hour Dollars	Value Added Per Hour Dollars	Hours Rank
1	Michigan	$22.26	$99.91	6
2	Louisiana	$21.18	$300.99	29
3	Connecticut	$20.72	$148.99	28
4	Wyoming	$20.55	$209.41	50
5	Washington	$20.04	$147.17	23
6	Indiana	$20.00	$109.81	7
7	Delaware	$20.00	$178.38	43
8	Ohio	$19.89	$109.49	3
9	Massachusetts	$19.53	$139.48	21
10	Montana	$19.33	$142.07	47
11	Vermont	$19.31	$115.05	45
12	Maryland	$19.29	$136.43	33
13	New Jersey	$19.20	$132.35	18
14	Kentucky	$19.08	$113.38	20
15	West Virginia	$19.03	$114.57	37
16	Missouri	$19.01	$103.59	15
17	New Mexico	$19.01	$215.33	44
18	Maine	$18.93	$96.77	38
19	Colorado	$18.76	$118.56	32
20	Kansas	$18.55	$103.45	27
21	Wisconsin	$18.48	$103.65	10
22	Pennsylvania	$18.45	$117.70	5
23	New York	$18.42	$131.62	9
24	Illinois	$18.39	$115.24	4
25	Oregon	$18.34	$155.93	26
26	Arizona	$18.30	$131.23	31
27	Texas	$18.20	$167.21	2
28	Idaho	$18.07	$96.85	39
29	New Hampshire	$18.04	$96.10	36
30	Minnesota	$18.01	$108.46	14
31	Virginia	$17.94	$122.77	17
32	Iowa	$17.77	$121.47	22
33	California	$17.74	$132.96	1
34	South Carolina	$17.48	$98.07	19
35	Tennessee	$17.40	$110.03	12
36	Utah	$17.30	$113.56	35
37	Nevada	$17.20	$119.31	41
38	Oklahoma	$17.10	$113.93	30
39	North Dakota	$17.03	$109.31	46
40	Alabama	$16.86	$95.03	16
41	Rhode Island	$16.80	$114.33	40
42	Hawaii	$16.50	$112.91	49
43	Florida	$16.25	$110.17	13
44	Georgia	$16.17	$94.39	11
45	North Carolina	$16.06	$138.33	8
46	Nebraska	$15.68	$94.52	34
47	South Dakota	$15.55	$92.03	42
48	Arkansas	$15.06	$87.19	24
49	Mississippi	$14.97	$79.78	25
50	Alaska	$14.34	$80.24	48
	District of Columbia	$19.15	$82.07	-

Source: U.S. Census Bureau Annual Survey of Manufacturers Geographic Area Statistics; Supplemental Statistics for the United States and State 2006; and Florida TaxWatch

California and Texas led the nation in 2006 in total Machinery and Equipment Capital Investments with more than $11.6 billion each – as compared to Florida's $2.6 billion investment[9]. However, based on a per-employee level, California ranked 25th – ahead of Florida at 36th, but below Texas at 6th and Louisiana (a regional competitor), which topped the list. A number of other regional competitor states, such as Tennessee, Georgia, and North Carolina also outspent Florida in capital expenditures ($4.0 billion, $3.4 billion, and $3.8 billion, respectively). Please see Appendix A for information related to each state's manufacturing investment per employee.

Table 4 shows that Florida fell shy of the national average in 2006 in terms of manufacturing output dollars (measured by sector-generated dollars) per employee hour. These data reveal that, among the states analyzed, Louisiana outperformed Florida and all of the regional and national competitors in this category. Combining data from Tables 3 and 4, Louisiana had the second-highest wage per hour and the highest capital investment in its employees, value added by employees, and output per worker hour – even though its rank of annual hours worked was only 29th. Since 1997, Louisiana's worker productivity, as demonstrated in Table 4, increased by 170.6 percent, as compared to Florida's 27.0 percent increase – which was slightly under the national average of an 27.5 percent.

It should be noted that Louisiana's decline in total manufacturing employment (15.9 percent) was the lowest rate among all comparables and the national average, with the exception of Texas and Kentucky, which had a decline of only 15.7 percent.

Table 4: Manufacturing Sector Output per Worker Hour 1997-2006
(Adjusted for 2006 Dollars)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
United States	$64.71	$66.12	$67.62	$69.47	$68.39	$74.06	$74.96	$78.93	$82.54	$82.53
Alabama	$44.67	$46.23	$46.96	$47.11	$46.96	$52.17	$56.54	$64.69	$65.97	$64.82
California	$71.05	$75.15	$81.23	$89.91	$77.44	$78.12	$79.44	$85.66	$95.61	$96.04
Florida	$60.57	$60.74	$61.24	$61.93	$61.34	$67.46	$66.55	$70.14	$74.58	$76.90
Georgia	$58.10	$61.24	$66.37	$65.23	$65.82	$69.96	$67.74	$71.27	$72.46	$65.17
Kentucky	$78.83	$77.16	$77.95	$61.57	$61.97	$68.91	$70.80	$70.28	$71.29	$73.94
Louisiana	$80.83	$83.90	$87.69	$81.21	$70.59	$92.18	$108.30	$138.18	$203.99	$218.70
Mississippi	$39.04	$37.85	$39.72	$39.42	$40.10	$43.60	$49.92	$47.91	$49.32	$51.92
New York	$64.33	$66.49	$66.79	$69.33	$68.50	$80.38	$78.19	$84.52	$89.71	$92.02
North Carolina	$61.70	$61.10	$65.90	$67.97	$73.56	$80.28	$82.75	$81.57	$88.33	$93.00
South Carolina	$52.60	$53.90	$52.37	$52.36	$56.62	$64.39	$68.30	$61.42	$62.33	$60.85
Tennessee	$52.01	$53.16	$54.73	$54.84	$57.56	$63.15	$66.88	$70.85	$70.50	$69.13
Texas	$84.28	$85.93	$81.54	$79.33	$80.68	$89.84	$88.85	$114.26	$119.42	$122.59
Virginia	$60.12	$64.23	$68.15	$73.52	$84.03	$80.22	$76.33	$75.67	$80.53	$79.03

Source: U.S. Bureau of Economic Analysis "Gross Domestic Product by State"; U.S. Census Bureau Annual Survey of Manufacturers (1997-2006); and Florida TaxWatch

Data that compare each of Florida's manufacturing sub-sectors' worker production in 2005 and 2006 can be found in Appendix A.

[9] Data for Vermont, Wyoming, and the District of Columbia were not made available as of December, 2008.

Gross State Product (GSP)

This section of the report will focus on the GSP generated by manufacturing in Florida, as well as its regional and national comparable states. The regional states were chosen from lists that are used by the BEA, BLS, and the Census Bureau. The other comparable states were determined based on size of population and economy.

Table 5 depicts the dollar value of the manufacturing sector contribution to each entity's GSP, in millions and adjusted for inflation to 2007 dollars. For example, Florida's manufacturing GSP increased from $34.5 billion in 1997 to about $36.6 billion by 2007 – a 5.9 percent increase of about $2.0 billion. Table 6 depicts the dollar amounts from Table 5 as percentages of total GSP for each entity over this time period and reveals that Florida's manufacturing sector *declined* as a percentage of total GSP – from 7 percent to 5 percent. Although Louisiana's GSP fiscal increase had the highest percentage of growth (133.0 percent), Texas had the highest inflation-adjusted manufacturing GSP since 1997 ($37.1 billion).

Florida's manufacturing sector – as compared to many of its similarly-sized competitors – is smaller. Table 5 depicts Florida as lagging behind about half of its competition's manufacturing dollar output – but is lowest in terms of its manufacturing sector's representation as a percentage of the state's total GSP. However, this may be the result of state policy, planning, and focus towards other economic industries (such as agriculture, tourism, or real estate/construction growth).

Table 5: Total Gross State Product that is Generated by Manufacturing (Millions of 2007 Dollars)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
United States	$1,607,136	$1,669,031	$1,681,048	$1,708,837	$1,569,476	$1,555,548	$1,530,667	$1,562,951	$1,572,933	$1,591,431	$1,615,777
Alabama	$24,992	$25,425	$25,776	$25,228	$23,502	$23,510	$24,147	$27,645	$28,168	$28,375	$28,642
California	$167,556	$184,117	$195,958	$219,254	$181,027	$160,741	$158,965	$161,023	$172,223	$176,414	$179,022
Florida	$34,546	$35,770	$35,336	$35,904	$33,410	$33,411	$32,366	$34,192	$35,014	$36,403	$36,591
Georgia	$49,320	$52,318	$57,062	$55,076	$50,805	$49,862	$47,457	$48,603	$47,763	$43,853	$43,559
Kentucky	$36,891	$35,985	$36,174	$28,951	$27,466	$28,532	$28,508	$27,708	$27,484	$28,776	$29,077
Louisiana	$21,318	$22,103	$22,888	$20,691	$17,321	$20,865	$24,318	$31,315	$44,046	$48,018	$49,666
Mississippi	$14,456	$14,409	$14,670	$13,594	$12,720	$12,448	$13,329	$13,239	$13,129	$13,834	$13,821
New York	$69,316	$73,346	$71,398	$72,207	$66,857	$68,911	$64,818	$65,456	$65,150	$66,079	$66,388
North Carolina	$75,524	$75,635	$80,354	$80,175	$78,088	$76,480	$74,521	$70,866	$71,861	$73,870	$74,278
South Carolina	$28,984	$29,619	$28,411	$28,183	$28,032	$29,157	$30,198	$25,627	$24,830	$24,245	$24,486
Tennessee	$39,600	$40,392	$41,215	$39,720	$38,498	$39,997	$40,337	$42,859	$41,082	$40,008	$39,369
Texas	$116,041	$121,627	$112,145	$111,405	$107,970	$108,633	$104,900	$130,290	$134,077	$146,694	$153,181
Virginia	$33,910	$35,958	$37,989	$40,492	$42,061	$38,069	$35,291	$33,464	$34,236	$33,481	$33,869

Source: U.S. Bureau of Economic Analysis and Florida TaxWatch

Table 6: Percent of Total Gross State Product that is Generated by Manufacturing											
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
United States	15.5%	15.5%	14.9%	14.6%	13.3%	13.0%	12.5%	12.3%	12.0%	11.8%	11.8%
Alabama	19.4%	19.2%	18.8%	18.4%	16.9%	16.5%	16.5%	17.8%	17.7%	17.4%	17.3%
California	13.1%	13.7%	13.6%	14.2%	11.9%	10.4%	10.0%	9.7%	10.0%	9.9%	9.9%
Florida	7.0%	6.9%	6.5%	6.4%	5.7%	5.6%	5.1%	5.1%	4.9%	4.9%	5.0%
Georgia	16.5%	16.5%	16.8%	15.8%	14.5%	14.1%	13.3%	13.1%	12.5%	11.3%	11.0%
Kentucky	27.8%	26.6%	26.0%	21.6%	20.4%	20.6%	20.3%	19.2%	18.7%	19.1%	18.9%
Louisiana	15.0%	15.1%	15.1%	13.1%	11.1%	13.5%	14.7%	17.5%	22.6%	23.0%	23.0%
Mississippi	19.9%	19.2%	19.0%	17.7%	16.5%	15.9%	16.4%	15.8%	15.6%	15.9%	15.6%
New York	8.4%	8.6%	8.0%	7.8%	7.1%	7.3%	6.8%	6.7%	6.4%	6.3%	6.0%
North Carolina	26.3%	25.1%	25.0%	24.4%	23.4%	22.4%	21.6%	20.0%	19.4%	18.9%	18.6%
South Carolina	23.7%	23.2%	21.4%	20.9%	20.4%	20.9%	21.0%	17.8%	16.9%	16.1%	16.0%
Tennessee	20.6%	20.2%	19.8%	19.0%	18.2%	18.2%	17.9%	18.2%	17.3%	16.5%	16.1%
Texas	15.4%	15.6%	13.7%	12.8%	12.1%	12.1%	11.2%	13.2%	12.9%	13.4%	13.4%
Virginia	12.7%	12.8%	12.8%	13.0%	13.0%	11.6%	10.4%	9.4%	9.2%	8.8%	8.8%

Source: U.S. Bureau of Economic Analysis and Florida TaxWatch

Manufacturing's two percent decline in total Florida GSP from 1997 to 2007 was likely due to disproportionate growth in other industries of the economy (as seen in Table 7 and 8). One example of this type of growth was in the real estate, rentals, and leasing sector, which grew (in 2007 dollars) from $74.3 billion to about $125.9 billion between 1997 and 2007. Please also see Appendix A for data that demonstrate Florida GSP changes by manufacturing sub-sector.

Table 7: Florida Gross State Product by Sector (Millions of 2007 Dollars)			
	1997	2002	2007
ALL Industries	**$491,564**	**$601,132**	**$734,519**
Agriculture, Forestry, Fishing, and Hunting	$7,100	$6,095	$6,717
Mining	$766	$750	$1,029
Utilities	$11,701	$9,876	$13,149
Construction	$23,955	$36,991	$45,004
Manufacturing	$34,546	$33,411	$36,591
Wholesale Trade	$34,223	$39,350	$47,331
Retail Trade	$42,009	$49,713	$56,665
Transportation and Warehousing, Excluding Postal Service	$15,637	$16,806	$19,822
Information	$20,475	$26,306	$30,914
Finance and Insurance	$31,051	$42,066	$51,868
Real Estate, Rentals, and Leasing	$74,259	$94,907	$125,878
Professional and Technical Services	$25,812	$36,533	$48,134
Management of Companies and Enterprises	$5,627	$7,420	$10,454
Administrative and Waste Services	$21,069	$30,997	$35,160
Educational Services	$2,803	$4,060	$5,255
Health Care and Social Assistance	$36,178	$44,570	$54,583
Arts, Entertainment, and Recreation	$9,073	$10,458	$12,385
Accommodation and Food Services	$18,819	$21,829	$28,204
Other Services, Except Government	$14,164	$16,789	$19,819
Federal Civilian Government	$9,711	$11,111	(N/A)
Federal Military Government	$6,869	$7,577	(N/A)
State and Local Government	$45,722	$53,516	(N/A)

Source: U.S. Bureau of Economic Analysis and Florida TaxWatch

Table 8: Percent of Total Florida Gross State Product by Sector			
Sector	**1997**	**2002**	**2007**
Agriculture, Forestry, Fishing, and Hunting	1.4%	1.0%	0.9%
Mining	0.2%	0.1%	0.1%
Utilities	2.4%	1.6%	1.8%
Construction	4.9%	6.2%	6.1%
Manufacturing	7.0%	5.6%	5.0%
Wholesale Trade	7.0%	6.5%	6.4%
Retail Trade	8.5%	8.3%	7.7%
Transportation and Warehousing, Excluding Postal Service	3.2%	2.8%	2.7%
Information	4.2%	4.4%	4.2%
Finance and Insurance	6.3%	7.0%	7.1%
Real Estate, Rentals, and Leasing	15.1%	15.8%	17.1%
Professional and Technical Services	5.3%	6.1%	6.6%
Management of Companies and Enterprises	1.1%	1.2%	1.4%
Administrative and Waste Services	4.3%	5.2%	4.8%
Educational Services	0.6%	0.7%	0.7%
Health Care and Social Assistance	7.4%	7.4%	7.4%
Arts, Entertainment, and Recreation	1.8%	1.7%	1.7%
Accommodation and Food Services	3.8%	3.6%	3.8%
Other Services, Except Government	2.9%	2.8%	2.7%
Federal Civilian Government	2.0%	1.8%	N/A
Federal Military Government	1.4%	1.3%	N/A
State and Local Government	9.3%	8.9%	N/A

Source: U.S. Bureau of Economic Analysis and Florida TaxWatch

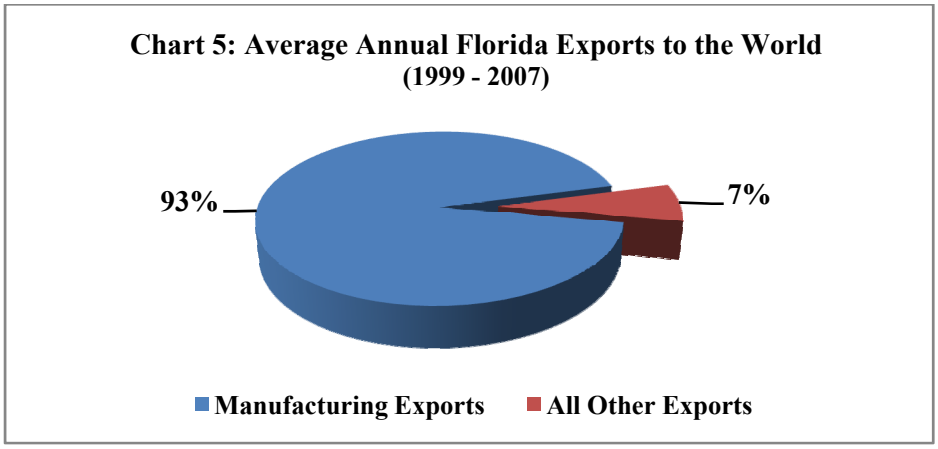
Manufacturing Import/Export Trends

Manufacturing exports cut across a wide variety of sub-sectors that mostly saw constant growth over the last decade. Manufactured products accounted for most of all exports in Florida – as well as in many of its regional and national economic competitor states. The percentages of exported products that were manufactured sustained a steady increase in Florida, although these goods have continually outperformed all other types of exports.

Import and export trends in the state of Florida fluctuated from 1999 through 2007. Although the majority of all trade was in manufacturing, it was not seen as substantial a growth as comparable state competitors. Since 2002, a substantial increase in the average percentage of manufacturing exports has been visible leading to shifting trends in imports and exports. In 2007, Florida experienced a sudden increase in total exported merchandise, which shifted the dominant percentage away from imported goods. With the aid of increased manufactured exports, the state became a *net exporter* in terms of overall trade. Compared to national percentages, Florida was above average in the exporting total merchandise and manufactured goods. The national trend pushed towards strong import-based manufacturing, while the state trend of Florida pushed towards stronger export-based manufacturing.

Manufactured goods comprised the majority of all merchandise exports from the state of Florida. These exports represented 93 percent of all exports from Florida, while the remaining 7 percent included all other exports. According to the source of the data, these figures were derived by the

U.S. Census Bureau through the gathering of *all export data leaving the state of Florida* – sea, air, and land transport, regardless of original source of exported good(s) and excluding services.



Source: National Association of Manufacturers based on U.S. Census Bureau and Commerce Department; and Florida TaxWatch

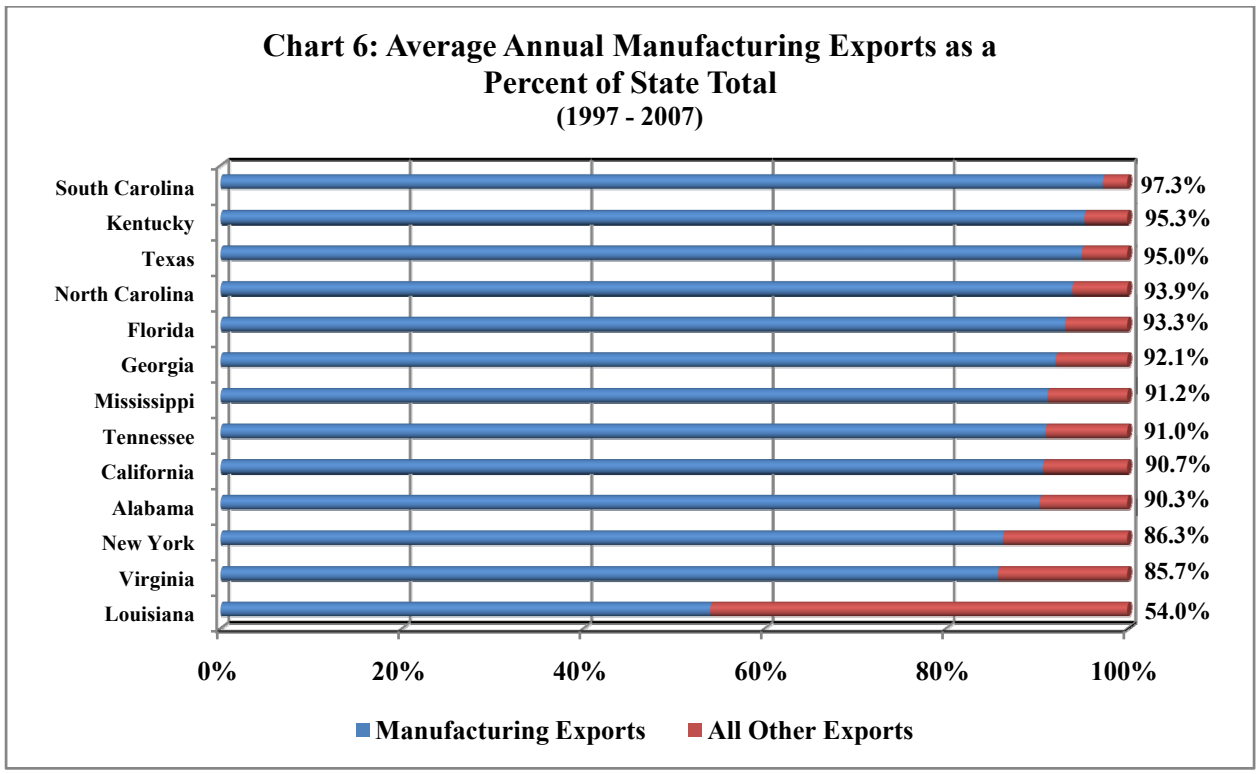
From 1999 through 2007, overall inflation adjusted manufacturing exports grew overall by more than 46.4 percent. These exports consist of a variety of products from throughout 21 sub-sectors.

The largest sub-sector export, as a percent of total exported goods, was computer and electronic products (27.2 percent in 2007). From 1999 through 2007, increasing computer and technological advances aided a boost in demand for computer and electronic product exports by 40.6 percent, increasing by an average 4.8 percent per year. This sub-sector is only a part of a dynamic world market, but may serve as a prime example of the microcosm of Florida's manufacturing sub-sectors. Combined data from a number of tables and charts within this report demonstrates this sub-sector's resiliency and ability to grow within an increasingly competitive world. Employment in this sub-sector saw the largest decrease among all manufacturing sub-sectors from 1999 to 2007 (about 15,400 employees, or roughly 32 percent of their workforce), while the inflation-adjusted GSP production value increased $3.5 billion in 2007 dollars. This sub-sector of Florida's economy clearly demonstrates the state manufacturing sector's desire to improve technological capabilities within the production process, while increasing the visibility of a Florida-based product worldwide.

Beverage and tobacco products outperformed all other sub-sectors in total percentage growth (142.0 percent increase in 2007 dollars); although transportation equipment manufacturing experienced the largest total dollar growth (nearly $3.6 billion). Other notable sub-sectors include petroleum and coal products – which grew by 132.9 percent (a $97.2 million increase) – and machinery manufacturing – which grew by $2.1 billion (a 68.9 percent increase).

Compared to other large exporting states, Florida ranked towards the top of manufacturing export percentages. The top manufacturing exporter is South Carolina at 97.3 percent. The

states in Chart 6 maintained such a large manufacturing export percentage through their access to large ports, which increased their ability to trade easily in the world market.

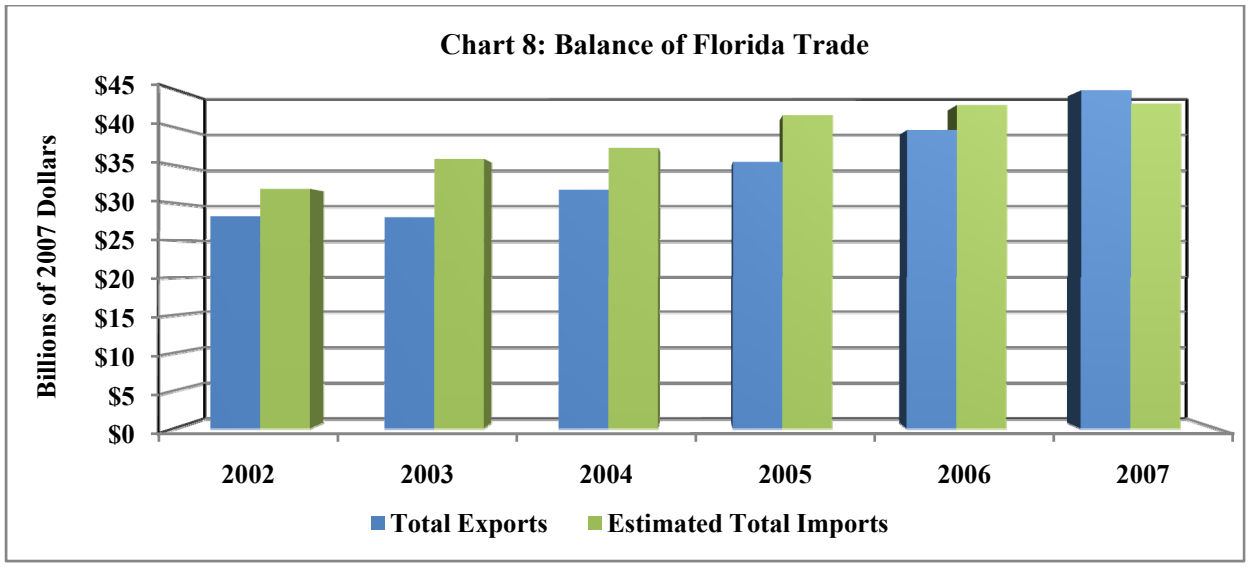


Source: Foreign Trade Division, U.S. Census Bureau and Florida TaxWatch

The annual percent change in Florida manufacturing exports, as compared with total exports in the state, ran parallel over the period of 1999 – 2007, demonstrating that Florida exports growth is largely contingent on the success of the manufacturing sector. Only in more recent years, when the non-manufacturing exports – such as "waste & scrap" (code 980) – greatly increased, has there been a significant divergence in growth in total state exports performing at a slightly higher rate than the growth of manufacturing exports.

The annual percentage change of manufacturing exports from Florida – as compared to other heavy exporting states – remained relatively steady. It can be inferred from the data that during the period of 1999 through 2007, the economic slowdown in the early part of the current decade had less of an impact on Florida's manufacturing sector exports, but resulted in slower annual growth due to the lack of a substantial contraction seen in the early years of the data in the other states.

Chart 8 shows that the estimated import totals flowing into the state have continually increased, but the total value of exports has increased at an even higher rate. In 2007, for the first time during the period analyzed, total exports exceeded imported goods and services.

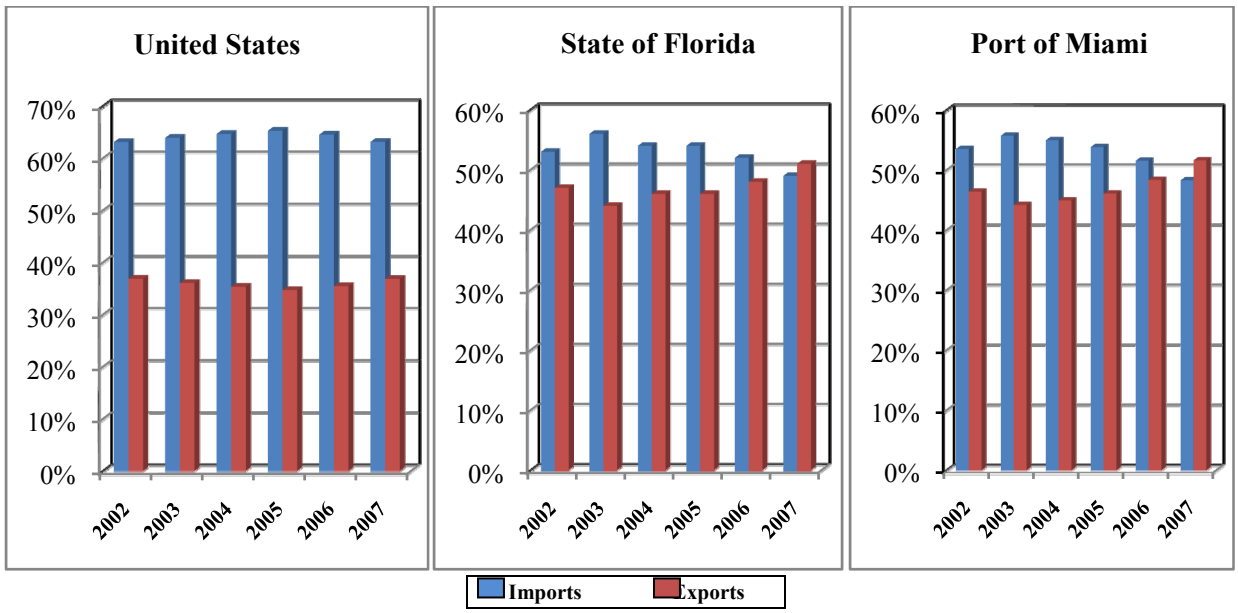


Source: Enterprise Florida Inc. and U.S. Census Bureau, Foreign Trade Division; and Florida TaxWatch
Note: Imports determined using export dollars and percentage of total trade

From 2002 through 2005, Florida imported a substantially higher amount of merchandise – as a percent of total trade – than the state exported. However, in 2006, the percentage began to shift (48 percent imports and 52 percent exports) and continued in 2007.

When comparing Florida to U.S., the state's trade balance outperformed that of the overall nation. In 2007, the United States' trade balance rested at 47 percent for exports of merchandise and 63 percent for imports. On the other hand, Florida's trade balance was 51 percent export and 49 percent import.

Chart 7: Imports and Exports as a Percentage of Total Trade



Source: U.S. Department of Commerce, U.S. International Trade Committee, and the Florida Ports Council based on Enterprise Florida Inc.; U.S. Census Bureau, Foreign Trade Division; and Florida TaxWatch

The largest container port in Florida[10], the Port of Miami, showed similar trends in the fluctuation of import and export totals. The port had a significantly higher percentage of imports, until a shift towards a higher total value of exports began in 2006. As shown in Chart 7, in 2007 the Port of Miami exported 52 percent of total merchandise compared to 48 percent imports.

Tax Policies and Payments

One of the biggest concerns for any business relocating or remaining within a state is the tax burden placed upon them by government. A Conexus-Indiana study[11], conducted through research at Ball State University, ranks Florida 13th in terms of the overall tax burden[12], However, the state received an A grading and ranked 3rd among all 50 states in 2008 for overall national manufacturing and logistics[13].

A number of taxes must be paid by business to different levels of the government, depending upon the taxes being levied. For example, taxes on wages are to be paid to both the federal and (often) state through payroll taxes, such as social security or personal income taxes. The latter of these taxes is not applicable to Florida (thereby making the state more attractive for workers); but this also means that the tax burden is placed more heavily on the backs of business, inputs to production in the sales and use tax, and other taxes (thereby making the state less attractive to firms wanting to relocate or remain in the state).

A list of the primary manufacturing taxes and costs has been compiled by Enterprise Florida[14] and includes categories such as corporate taxes rate (and how it is determined), sales and use tax rates, unemployment insurance rate, the utility cost, workers' compensation premium (estimated), and inventory and property taxes. Also provided by Enterprise-Florida is an overall business tax climate index rating, wherein Florida ranks 5th – the highest among comparables listed. Similarly, a 2009 study published by the Tax Foundation[15] placed Florida in the top ten best state business climates for FY 2009 – 5th best of 50 states since at least FY 2006.

Table 9 presents the tax burden placed on the backs of business, as per state and local taxation. According to the Ernst & Young, LLC and Center On State Taxation (COST) study of state business taxation environments, *Total State & Local Business Taxes: 50 State Estimates for Fiscal Year 2008*, Florida ranked fourth in the nation in total dollar amount as a tax burden ($33.9 billion), but 15 states relied more heavily on business taxes as a percentage of their total GSP. These data show that Florida fell towards the middle in relation to the level of a state's tax burden shared by businesses.

[10] http://www.miamidade.gov/portofmiami Last Retrieved 2-10-09
[11] http://cms.bsu.edu/Academics/CentersandInstitutes/BBR/~/media/83F126DC3C234420A3C6665AB9374829.ashx Last Retrieved 2-10-09
[12] Includes corporate tax (14th), individual income tax (tied for 1st), sales tax (19th), unemployment insurance tax (2nd), and property tax (18th)
[13] This rating includes a variety of variables, such as crime and educational status of state population
[14] *Review of Selected State Taxes and Costs in the Manufacturing Sub-sector*, Enterprise Florida 2008
[15] http://www.taxfoundation.org/files/bp58.pdf Last Retrieved 2-23-09

Table 9: Business Taxes as a Percent of All State Taxes, Fiscal Year 2008				
Rank		**Percent of All Taxes**	**Percent of GSP***	**Rank**
1	Alaska	89.30%	22.30%	1
2	Wyoming	74.30%	9.20%	2
3	North Dakota	65.30%	8.90%	3
4	South Dakota	61.70%	5.20%	18
5	Texas	61.20%	5.30%	16
6	Louisiana	59.40%	5.20%	19
7	New Mexico	56.10%	6.00%	7
8	New Hampshire	55.40%	5.40%	14
9	Delaware	52.80%	3.80%	47
10	Montana	52.50%	6.40%	6
11	West Virginia	52.20%	7.10%	5
12	Washington	51.30%	5.50%	13
13	Tennessee	50.60%	4.50%	35
14	Oklahoma	50.10%	5.30%	17
15	Arizona	49.90%	4.70%	27
16	Nevada	49.90%	4.60%	30
17	Florida	48.50%	5.20%	20
18	Mississippi	48.10%	6.00%	8
19	Kansas	47.50%	5.70%	11
20	Maine	47.40%	7.30%	4
21	Nebraska	46.50%	5.10%	21
22	Illinois	46.00%	4.90%	25
23	Rhode Island	45.80%	5.70%	12
24	Vermont	45.80%	6.00%	9
25	Alabama	45.50%	4.50%	36
26	Iowa	45.50%	4.60%	31
27	Colorado	44.20%	4.20%	40
28	South Carolina	43.30%	4.70%	28
29	Indiana	42.90%	5.00%	22
30	Michigan	42.50%	5.00%	23
31	Ohio	42.20%	4.60%	32
32	Kentucky	41.60%	4.50%	37
33	Georgia	41.40%	4.00%	44
34	Pennsylvania	41.10%	4.90%	26
35	New York	40.90%	5.80%	10
36	California	40.70%	4.60%	33
37	Missouri	40.40%	4.10%	42
38	Wisconsin	39.40%	4.60%	34
39	Idaho	39.40%	4.70%	29
40	Minnesota	39.30%	4.30%	39
41	Arkansas	38.90%	4.50%	38
42	Utah	38.50%	3.90%	45
43	Oregon	38.20%	3.70%	48
44	Hawaii	38.10%	5.40%	15
45	Massachusetts	37.90%	4.20%	41
46	New Jersey	37.20%	5.00%	24
47	Virginia	36.70%	3.90%	46
48	North Carolina	36.20%	3.60%	50
49	Connecticut	32.30%	3.70%	49
50	Maryland	30.70%	4.10%	43
	District of Columbia	48.10%	4.10%	-
	United States	44.10%	4.90%	-

Source: *Total State & Local Business Taxes: 50 State Estimates for Fiscal Year 2007*, Ernst & Young, LLC and Center On State Taxation (COST), Table 5; and Florida TaxWatch

*Note: Percent of GSP based on 2007 data

A 2008 Crowe Horwarth/IW Custom Research survey of various manufacturers throughout the nation, which has been published online at IndustryWeek.com,[16] found that 65 percent of respondents felt taxes, such as sales, use, and property taxes negatively impact their businesses – as opposed to 18% that believed these taxes have no a negative impact. A total of about 350 surveys were received and the range of participants' occupations within and sizes of those businesses provided a diverse selection of the manufacturing businesses community throughout the country.

Florida's manufacturing sector represents an estimated $1.69 billion of all business tax revenues throughout the state. As in most states, a majority of Florida's total business taxes are paid through local property taxes, with excise and sales taxes accounting for the majority of the remaining total business taxes. Florida is more reliant on property and sales taxes at the local and state levels, respectively, due – in large part – to the lack of an individual income tax.

Table 10: Estimated Taxes Paid by Businesses in Florida, by Sector, FY 2008 (Billions of Dollars)

Economic Sector	Property Taxes	Sales Taxes	Excise and Gross Receipts	Corporate Income Tax	Payroll Taxes	Individual Income Tax	Business License and Other Taxes	Total Business Taxes
Agriculture, Forestry, Fishing & Hunting	$0.12	$0.07	$0.08	$0.02	$0.01	$0.00	$0.02	$0.31
Mining	$0.02	$0.01	$0.01	$0.00	$0.00	$0.00	$0.00	$0.05
Utilities	$0.23	$0.14	$0.15	$0.04	$0.02	$0.00	$0.04	$0.61
Construction	$0.78	$0.47	$0.51	$0.13	$0.06	$0.00	$0.13	$2.08
Manufacturing	**$0.63**	**$0.38**	**$0.42**	**$0.11**	**$0.04**	**$0.00**	**$0.11**	**$1.69**
Wholesale Trade	$0.82	$0.49	$0.54	$0.14	$0.06	$0.00	$0.14	$2.18
Retail Trade	$0.98	$0.59	$0.65	$0.17	$0.07	$0.00	$0.17	$2.62
Transportation & Warehousing	$0.34	$0.21	$0.23	$0.06	$0.02	$0.00	$0.06	$0.91
Information	$0.53	$0.32	$0.35	$0.09	$0.04	$0.00	$0.09	$1.43
Finance and Insurance	$0.90	$0.54	$0.59	$0.16	$0.06	$0.00	$0.16	$2.39
Real Estate, Rental & Leasing	$2.18	$1.30	$1.44	$0.38	$0.15	$0.00	$0.38	$5.81
Professional & Technical Services	$0.83	$0.50	$0.55	$0.14	$0.06	$0.00	$0.14	$2.22
Management of Companies & Enterprises	$0.18	$0.11	$0.12	$0.03	$0.01	$0.00	$0.03	$0.48
Administrative& Waste Services	$0.61	$0.36	$0.40	$0.11	$0.04	$0.00	$0.11	$1.62
Educational Services	$0.09	$0.05	$0.06	$0.02	$0.01	$0.00	$0.02	$0.24
Health Care and Social Assistance	$0.94	$0.56	$0.62	$0.16	$0.07	$0.00	$0.16	$2.52
Arts, Entertainment & Recreation	$0.21	$0.13	$0.14	$0.04	$0.02	$0.00	$0.04	$0.57
Accommodation & Food Services	$0.49	$0.29	$0.32	$0.08	$0.03	$0.00	$0.08	$1.30
Other Services, Except Government	$0.34	$0.21	$0.23	$0.06	$0.02	$0.00	$0.06	$0.91
Government	$1.48	$0.89	$0.98	$0.26	$0.10	$0.00	$0.26	$3.95
Florida Totals	**$12.70**	**$7.60**	**$8.40**	**$2.20**	**$0.90**	**$0.00**	**$2.20**	**$33.90**

Source: *Total State & Local Business Taxes: 50 State Estimates for Fiscal Year 2007*, Ernst & Young, LLC and Center On State Taxation; U.S. Bureau of Economic Analysis; and Florida TaxWatch

Note: Estimates based on national Florida Total Business Tax Burden and GSP percentage distribution; Errors in totaling are due to rounding

[16] http://www.industryweek.com/articles/the_future_of_manufacturing_17524.aspx?ShowAll=1 Last Retrieved 2-10-09

The National Association of Manufacturers (NAM) annually publishes a *Competitiveness Redbook* for the manufacturing sector. The following exhibit, Table 11, is one of the several data tables that are compiled and included within the *Redbook*. The following table depicts the cost of doing business in each state during fiscal year 2007.

Table 11: Cost of Doing Business (FY 2007)

Rank		Main Index	Sub-Indexes			Industr. Rent	Office Rent
			Wages	Taxes	Electricity		
1	Hawaii	151.5	91.9	162.1	260.7	269.5	140.4
2	New York	130.9	128.5	102.5	141.5	154.4	189.4
3	Alaska	130.8	100.3	153.0	150.3	232.7	84.5
4	Massachsetts	130.6	122.1	101.0	187.8	129.0	165.2
5	Connecticut	127.5	128.9	106.8	163.8	113.5	116.1
6	California	122.9	114.8	120.6	134.7	141.4	141.4
7	New Jersey	120.9	121.2	94.5	129.7	161.0	117.3
8	Vermont	110.2	83.9	173.1	134.0	91.9	87.3
9	Delaware	110.1	110.5	132.1	87.8	96.3	112.3
10	Rhode Island	108.0	94.6	105.6	174.9	74.0	118.7
11	Maryland	106.4	108.9	90.4	124.1	94.7	115.4
12	New Hampshire	105.3	98.5	61.9	187.2	120.4	71.1
13	Minnesota	104.3	98.8	133.2	77.7	121.3	89.0
14	Nevada	104.2	96.4	102.2	115.9	114.2	134.5
15	Washington	102.7	104.3	105.4	74.0	116.0	136.2
16	Wyoming	101.6	86.1	155.8	68.0	133.6	77.4
17	Maine	100.3	80.4	129.1	143.1	86.8	81.7
18	Illinois	99.9	107.5	88.2	80.3	100.8	128.0
19	Florida	99.3	91.4	88.3	117.3	125.0	116.5
20	Michigan	98.9	99.5	106.7	95.9	87.9	92.7
21	Pennsylvania	97.2	96.6	97.9	102.2	86.9	105.8
22	New Mexico	96.6	82.5	135.5	92.4	102.1	83.5
23	Wisconsin	96.4	86.2	110.0	93.9	120.6	102.7
24	Texas	95.9	100.1	69.9	118.1	95.7	91.0
25	Virginia	95.6	104.6	88.3	72.1	97.0	102.6
26	Louisiana	93.9	85.7	111.8	114.5	74.0	82.7
27	Colorado	92.8	102.7	70.4	94.9	81.8	98.7
28	Arizona	91.6	94.2	92.8	83.8	75.6	115.3
29	Oregon	91.4	89.1	93.7	77.5	111.1	106.7
30	Ohio	91.0	90.8	99.0	93.4	71.2	92.8
31	North Carolina	90.8	88.4	111.0	81.5	77.2	90.3
32	Georgia	90.7	95.5	87.7	87.3	72.6	100.5
33	Utah	90.1	83.9	113.1	66.1	104.7	101.7
34	Mississippi	88.4	73.5	119.2	107.2	79.4	77.0
35	Kentucky	87.3	82.8	124.0	64.8	71.4	84.2
36	Indiana	87.3	86.4	102.0	79.6	74.1	86.4
37	West Virginia	87.1	77.0	138.2	61.9	71.4	90.4
38	Kansas	86.8	83.6	100.5	77.0	86.9	93.7
39	Alabama	85.8	84.7	91.1	80.8	88.2	86.7
40	Oklahoma	85.4	80.7	103.8	89.2	68.9	81.6
41	Arkansas	85.4	75.9	136.3	74.1	56.1	69.2
42	Tennessee	85.2	87.7	83.9	85.6	72.3	89.9
43	Missouri	84.6	87.5	81.9	63.2	103.5	92.7
44	Montana	84.1	73.3	112.8	85.0	81.7	78.4
45	South Carolina	82.9	81.0	93.6	80.1	71.3	92.1
46	Idaho	82.8	76.2	110.0	60.7	97.5	77.7
47	Nebraska	82.3	80.5	100.1	68.5	68.9	96.5
48	North Dakota	81.3	73.7	120.5	68.9	61.2	76.9
49	Iowa	79.7	80.4	94.9	80.2	51.0	68.0
50	South Dakota	70.2	71.8	68.5	73.7	61.2	69.0

Source: National Association of Manufacturers *2008 Competitiveness Redbook*; Table 12

According to the NAM study, Florida ranks as the 19th highest cost state in which to do business. This is based on the indices provided; in which Florida is tied for 8th-best (88.3) in the

taxes sub-index, 26th for the wages sub-index; 36th in the electricity sub-index; 43rd industrial rent; 41st office rent. The Energy Information Administration,[17] a warehouse of energy data for the United States government, reported that Florida's main sources of electricity generation are coal and natural gas – neither of which originate in the state and, therefore, cost more for Florida consumers than the national average. This realization, paired with property and sales tax reliance, helps in explaining why Florida's cost of doing business ranks them in the top 20.

Profiled in this section are numerical descriptors of state tax policies in terms of how much businesses, in particular the manufacturing sector, have to pay in taxes. But to obtain a better understanding of the impact and nature of these numbers, the following narrative outlines some of the sales tax policy positions among comparative and competitive states. They have been compiled to demonstrate which policies may be providing incentives/benefits to Florida's business growth and which policies may be creating impediments that either slow or freeze efforts that would lead to an improvement of the overall business climate within the state. Policy analysis for other forms of taxation can be found in Appendix B.

Sales and Use Taxes

Sales and use taxes, rates, and exemptions within comparable states also present a diverse range of choices for businesses when deciding where to locate and do business. Some of the sales tax rates and generalized exemptions for states key to Florida's competitiveness are shown in Table 12. A more in-depth analysis of Florida's manufacturing sector exemptions is discussed following these data and their accompanying analysis.

Where Florida offers only the sales and use tax exemption for new or expanding manufacturing businesses, four of Florida's nine comparable states offer *complete* exemptions for manufacturing equipment purchases (including replacement equipment).

Table 12: State Sales & Use Tax Exemptions

	Sales Tax Rate	R & D Equipment Exemption	Manufacturing Machinery & Equipment Exemption	Explanation of Partial Exemption
Florida	6%	Yes	Partial	Only applies to new or expanding businesses
California	7.25%	No	No	
New York	4%	Yes	Yes	
Texas	6.25%	No	No	
Alabama	4%	No	Partial	Reduced rate of 1.5%
Georgia	4%	No	No	
North Carolina	4.25%	Yes	Yes	Both exemptions subject to 1% privilege tax
South Carolina	6%	Yes	Yes	
Tennessee	7%	No	No	
Virginia	4%	Yes	Yes	

Source: Enterprise Florida

[17] http://www.eia.doe.gov (State Energy Profiles) Last Retrieved 2-10-09

Four of the nine states (and Florida) offer the Research and Development (R & D)[18] sales and use tax exemption. This exemption is integral in attracting and retaining an active R & D sector in Florida. However, six states (CA, GA, NC, NY, SC, and TX) offer additional R & D tax credits, which provide additional incentive for the expansion of these enterprises within the state.

Several states offer broad sales and use tax exemptions covering more than just equipment. Virginia's R & D exemptions cover items "used or consumed" as part of the R&D process, whereas Florida's "use clause" requires that the machinery and equipment must be used at least 50 percent of the time in R & D functions.

Enterprise Florida's 2008 report on the manufacturing sector notes that pollution control equipment exemptions are commonly found in many states. Some states offer exemptions on all such equipment, while others (including Florida[19]) make the exemption available only for required pollution control equipment. Therefore, if a business wants to install pollution control equipment above and beyond state and federal mandates, this equipment is taxable in Florida. This is counterintuitive and counterproductive to Florida's desire to effectively control carbon emissions and improve the air quality of Florida. It should be noted that there is an estimated amount of $12.35 billion[20] in exemptions, deductions, or credits in sales and use taxes in Florida during the 2009 fiscal year, of which $4.92 billion[21] are for manufacturing-related items[22]. However, of the estimated $12.34 billion[23] in expected sales and use tax exemptions, deductions, or credits during FY 2008, $5.15 billion[24] of the total is categorized as business items. It is important to pause and note the exclusion of F.S. 212.06(5)(a) (tangible personal property imported or produced for export exemption). Table 13 presents these data, over time, without this exemption since it is an "intermediary tax" that, if assessed, would result in the taxation of the same goods or products twice.

For example, a tax on the sale between a wholesale trader and a retail trader – with the retail trader being the ultimate seller to the consumer –would result in a double taxation of the same product, as the sales and use tax is rightfully levied on the final sale by the retailer. Therefore, although this exemption totals close to an estimated $5 billion in FY 2009, it is excluded from actual total estimates because it is not a tax that should actually be levied. Another example is if a manufacturer imports wood to build a piece of furniture; in this case, the wood being imported would not be taxed, as the ultimate consumer of the product that purchases the furniture will pay

[18] "Research and development" means research that has one of the following as its ultimate goal: 1) basic research in a scientific field of endeavor; 2) advancing knowledge or technology in a scientific or technical field of endeavor;3) the development of a new product, whether or not the new product is offered for sale; 4) the improvement of an existing product, whether or not the improved product is offered for sale; 5) the development of new uses of an existing product, whether or not a new use is offered as a rationale to purchase the product; or 6) the design and development of prototypes, whether or not a resulting product is offered for sale.

[19] Florida's version of the pollution sales and use tax exemption is in F.S. 212.051(1).

[20] 2008 Florida Tax Handbook; the $12.35 billion total is noted to have some overlapping entries; excludes Services Tax Estimates from FY 2003 – FY 2005.

[21] **Includes $4.55 billion in Tangible Personal Property Imported or Produced for Export (F.S. 212.06(5)(a))**

[22] 2007 Florida Tax Handbook; selected exemptions for Manufacturing purposes

[23] 2007 Florida Tax Handbook; the $12.34 billion total is noted to have some overlapping entries

[24] **Includes $4.82 billion in Tangible Personal Property Imported or Produced for Export (F.S. 212.06(5)(a))**

the sales and use tax. Statewide, this statutory exemption, called "items purchased for subsequent resale," alone is worth $34.3 billion- easily more than double the entire sales and use tax amount collected. No state taxes these transactions and to do so would devastate the state economy.

Table 13: Estimated Sales & Use Tax Exemptions
(Billions of Dollars)
Fiscal Year 2003 – Fiscal Year 2009

	2003	2004	2005	2006	2007	2008	2009
Total Manufacturing	$0.241	$0.249	$0.249	$0.245	$0.237	$0.330	$0.363
Total All	$8.930	$9.280	$9.400	$9.910	$10.650	$12.330	$12.354

Source: Office of Economic and Demographic Research, Florida Legislature; 2002-2008 Tax Handbooks and Florida TaxWatch

Note: **These data do not include Tangible Personal Property Imported or Produced for Export (F.S. 212.06(5)(a))**

Note: Please see footnotes at bottom of page

Note: Exemption for machinery and equipment for research and development (F.S. 212.08(18)) was implemented in 2006; corresponding amounts for 2007 and 2008 (included in FY totals) are $26.3 million and $26.8 million, respectively – included in chart totals

Estimated manufacturing sales and use tax exemptions increased by 50.4 percent between FY 2003 and FY 2009. However, excluding the exemptions under F.S. 212.08(18) (the only applicable exemption created between FY 2003 and FY 2009), manufacturing exemptions only grew by 39.3 percent over this span of time. By comparison, when considering all estimated sales and use tax exemptions during this time frame, growth was 38.3 percent. After removing all new sales and use taxes that were created during the years analyzed this percentage decreases to a growth of only 37.9 percent.

In order to ascertain the *true* change in exemptions, all new *and* amended statutory exemptions should be examined separately. For example, the exemption for machinery and equipment purchased by expanding businesses or for spaceports (F.S. 212.08(5)(b)2.a.) was amended in 2006 and the resulting estimated exemption amount increased from $15.4 million in FY 2006 to $45 million in both FY 2007 and FY 2008.

When removing all newly created and amended exemption estimates from the totals, the corresponding estimated manufacturing dollar exemption growth was 47.3 percent. Similarly, when removing all new/amended exemptions from the total estimated exemption dollar growth, the corresponding percentage was 36.4 percent.

The tax exemption data are provided to point out the idea that, when exemption amounts decline, the manufacturing sector's capital expenditure growth is slowing – or declining. This reflects both: 1) the impacts of the state, national, and world economies; as well as 2) the state taxing policies' reflection on the placement of where manufacturing and capital investment are a priority.

REMI Impact Analysis

Florida TaxWatch (TaxWatch) used the Regional Economic Models, Inc. (REMI) to capture the direct, indirect, and induced economic impacts resulting from Florida manufacturing expenditures. Indirect impacts include purchases of inputs made by firms that are supplying goods and services to the manufacturing sector. Induced impacts result from the "re-spending" of wages – that is, new employees have money to spend on a variety of different goods and services such as groceries, clothes, insurance, hospital, and bank services. An aggregate multiplier, determined by these three impacts, measures the total economic impact of economic events such as manufacturing expenditures. For example, an aggregate economic multiplier of $3.5 would mean that for $1 of spending at an event, $3.50 is generated in the economy. Subtracting the original $1.00 spent on the event (direct impact) leaves $2.50 of additional net new spending in the economy (indirect and induced impacts).

This widely accepted and highly regarded econometric model (REMI) is widely implemented to measure proposed legislative and other program and policy economic impacts. REMI is based on a nationwide input-output model that captures inter-relationships among sectors and measures the impact of changes in economic variables on overall economic activity. The REMI model was specifically developed for the state of Florida, and includes 169 sectors. The model's principal advantages are that it is a dynamic input-output econometric model and can be used to forecast both direct and indirect economic effects over multiple-year time frames. REMI is used by the Florida Legislature's Division of Economic & Demographic Research, the Florida Agency for Workforce Innovation, other state and local government agencies, universities, and private research groups.

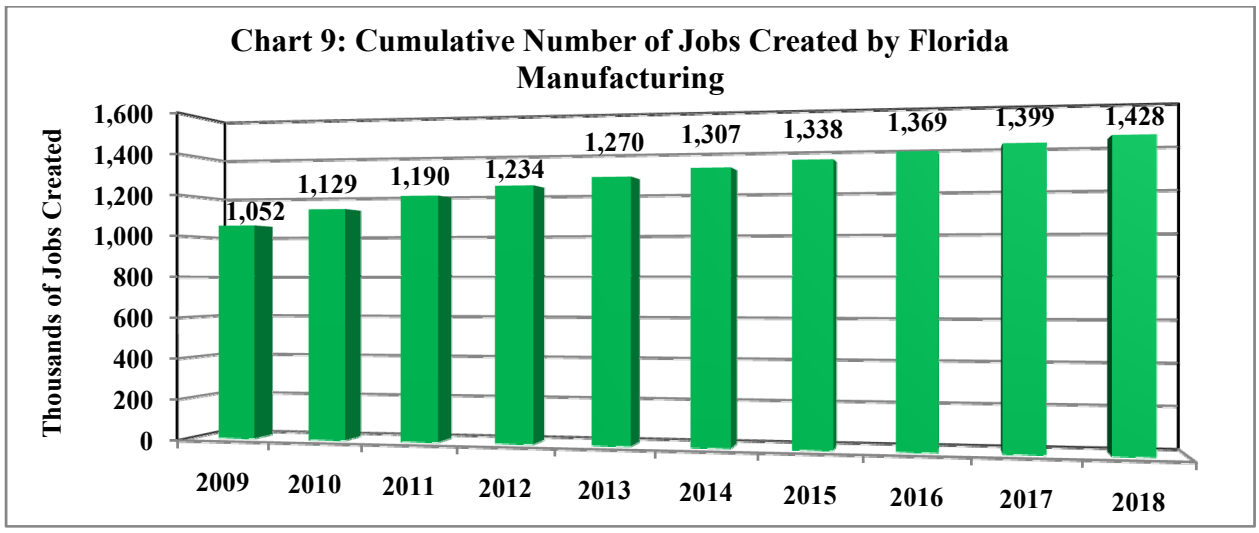
Using the REMI model, TaxWatch estimated the overall economic impact, the impact of possible sales tax exemptions, and the impact of a possible 10% capital investment incentive for the Florida manufacturing sector. The findings from the analysis will be presented in four major categories:

1. Employment
2. GSP
3. Output
4. Exports

Overall Economic Contributions of Florida Manufacturing

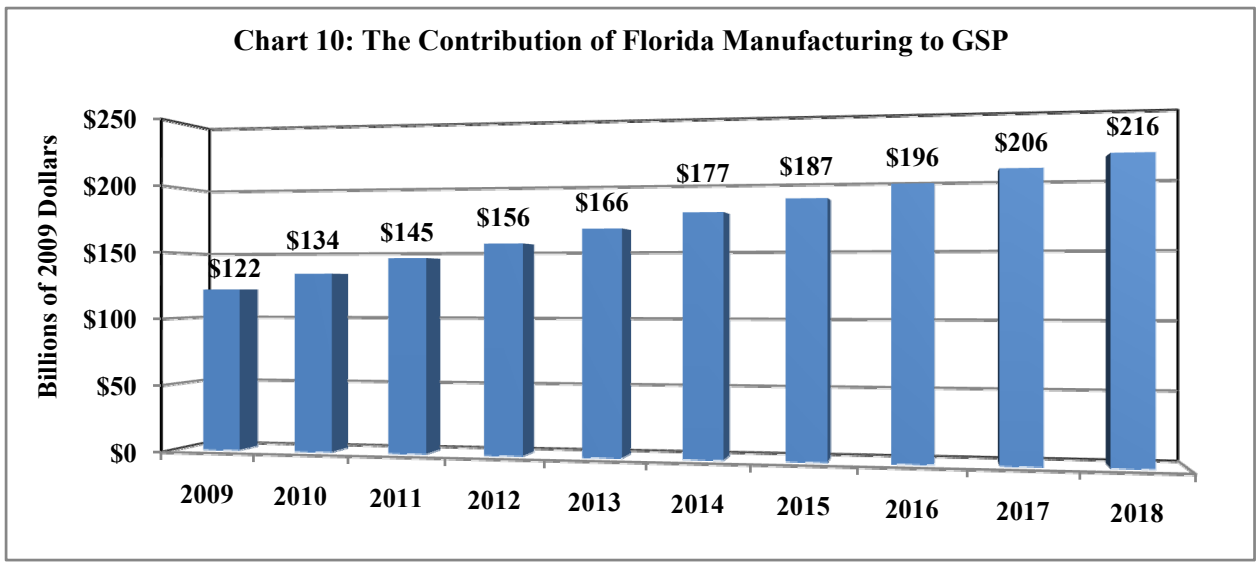
TaxWatch utilized REMI modeling to estimate the full economic impacts of Florida manufacturing on the overall state economy. This was done by measuring the differences between Florida's GSP, output, employment, and exports – with and without the manufacturing sector. As seen in Chart 9, the REMI model indicates that the manufacturing sector will create in excess of one million jobs in 2009 – as the employment multiplier for the manufacturing is 2.7. In other words, for each job directly created by manufacturing expenditures, there are 1.7 jobs

created through indirect and induced impacts. The cumulative number of jobs created by the manufacturing sector is expected to reach more than 1.4 million by 2018.

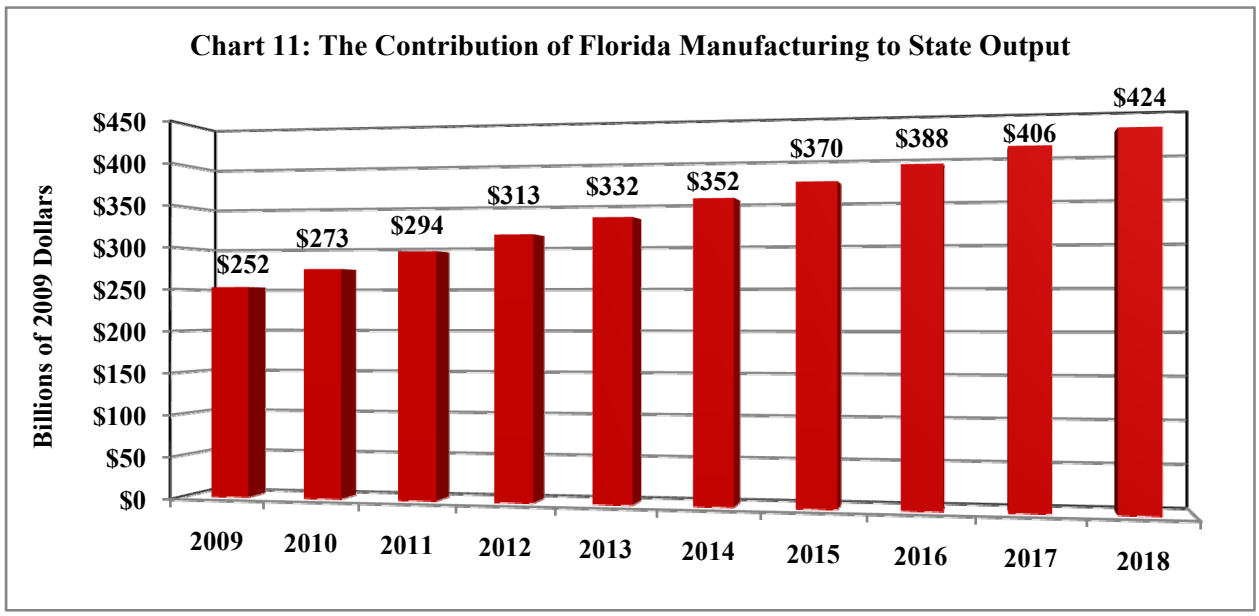


Source: Florida TaxWatch REMI Analysis

Charts 10 and 11 present the contributions by the Florida manufacturing sector to the state GSP and output, respectively. GSP is a measure of *final* goods and services produced in the state, while output is a measure of both final and *intermediate* goods and services produced in the state. The model estimates the total contribution to state GSP from manufacturing will be $122 billion in 2009. Considering $36.6 billion in direct contribution to the state GSP, this means the manufacturing GSP multiplier is 2.2. In other words, for every dollar in direct contribution from manufacturing, there is $1.2 in additional contributions due to indirect and induced impacts. The model predicts the contribution will reach $216 billion per year within 10 years (After adjusting to 2009 dollars for inflation). The contribution to output (total sales) is estimated to increase from $252 billion in 2009 to $424 billion (in 2009 dollars) in 2018.

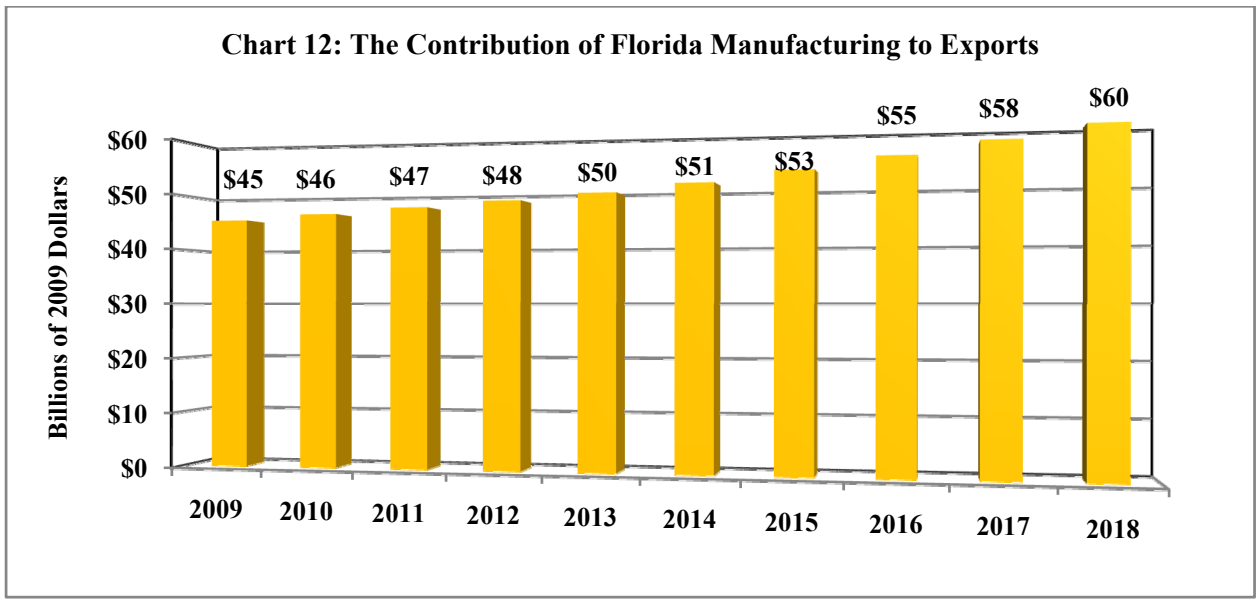


Source: Florida TaxWatch REMI Analysis



Source: Florida TaxWatch REMI Analysis

As discussed before, the manufacturing sector accounts for a very substantial (93%) majority of Florida's total exports. Chart 12 shows that the total contribution, including indirect and induced impacts from the manufacturing sector, will be $45 billion in 2009. This is projected to reach $60 billion per year (in 2009 dollars) over the next decade.



Source: Florida TaxWatch REMI Analysis

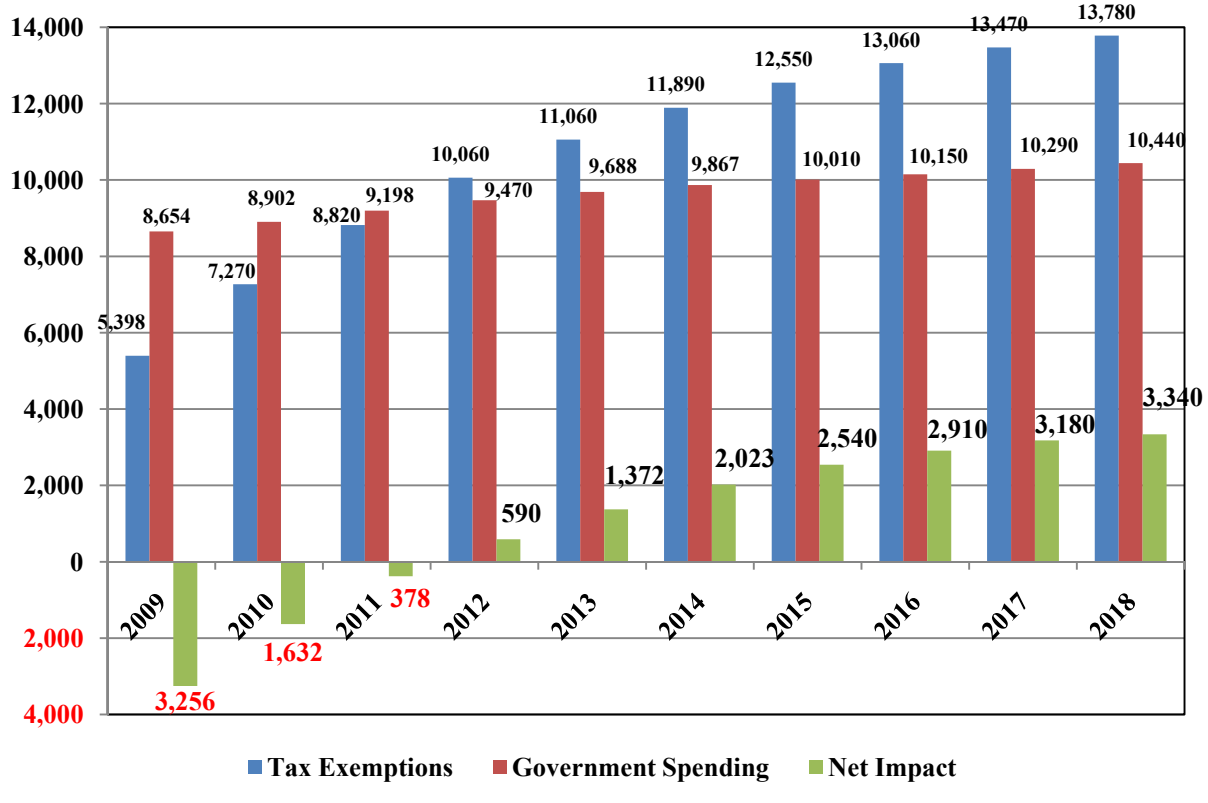
The Economic Impact of Eliminating Manufacturing Tax Exemptions

Due to the current budget deficit, state legislators are reviewing all sales and use tax exemptions to determine the public purpose and necessity of retaining them, or possibly adding new exemptions where beneficial. As discussed before, Florida manufacturers currently receive $336

million in sales and use tax exemptions. These exemptions allow manufacturers to reduce their costs of production and become more competitive. Thus, the repeal of these exemptions would result in a higher cost of production- in many instances reach a "tipping point" to where manufacturers would be forced to seek and expand non-Florida manufacturing facilities and employment. On the other hand, elimination of sales tax exemptions will result in an increase in government spending. Therefore, the net impact of the repealing of sales and use tax exemptions could be measured by the difference between economic impacts resulting from manufacturing spending versus government spending.

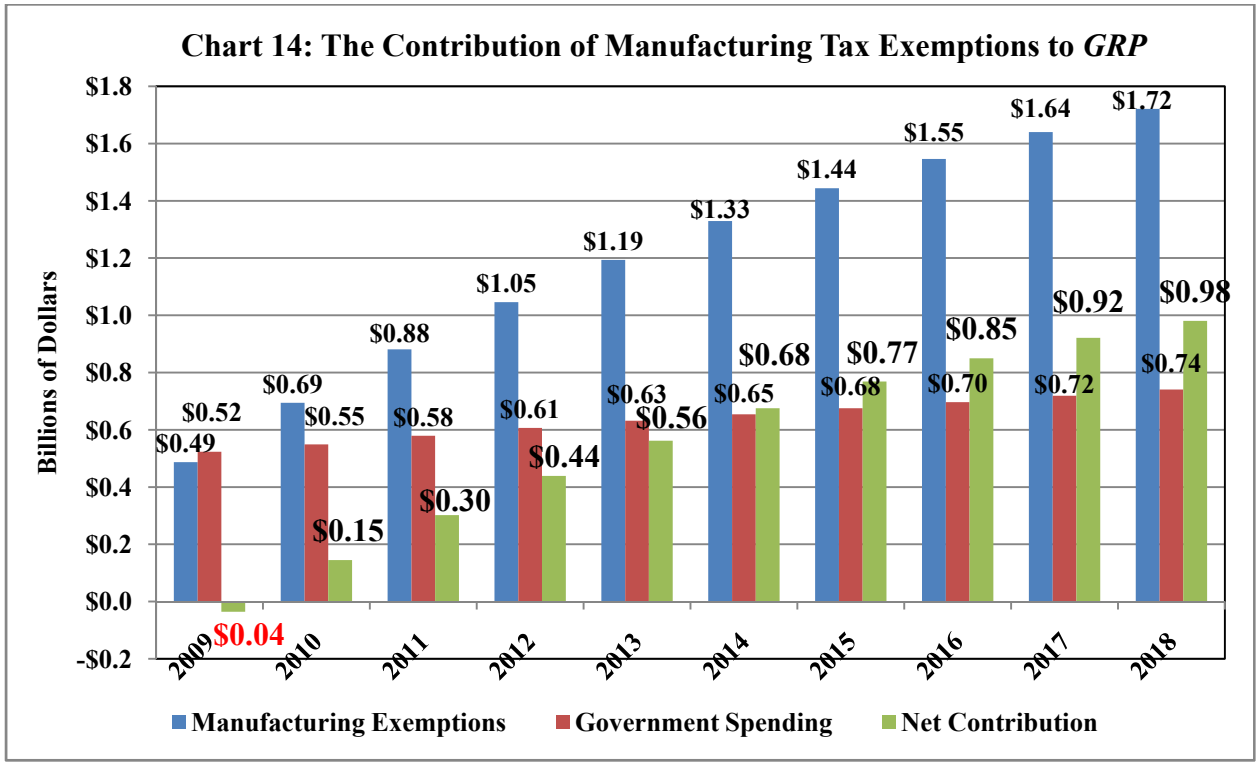
Using the REMI model, TaxWatch estimated the net impact of the possible elimination of manufacturing sales and use tax exemptions on the state GSP, output, employment, and exports. Chart 13 illustrates that the number of jobs created if the tax exemptions continue versus the number of jobs created by the government spending with the repeal of exemptions. Even though, the net impact (the difference between manufacturing induced jobs versus government spending induced jobs) will be negative in the very short terms, in the long run there will be between 590 to 3,340 more jobs added to the economy as a result of retaining manufacturing exemptions, as opposed to repealing them.

Chart 13: The Cumulative Number of Jobs Lost if Manufacturing Tax Exemptions Eliminated

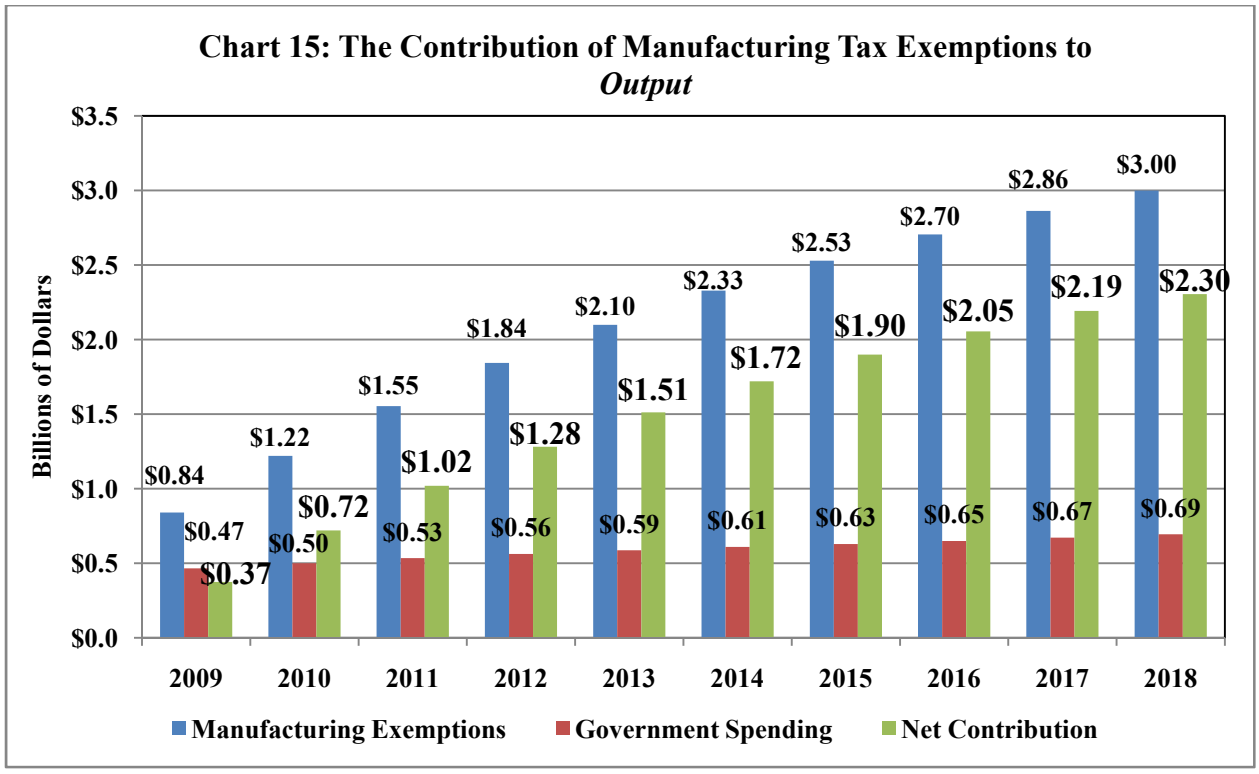


Source: Florida TaxWatch REMI Analysis

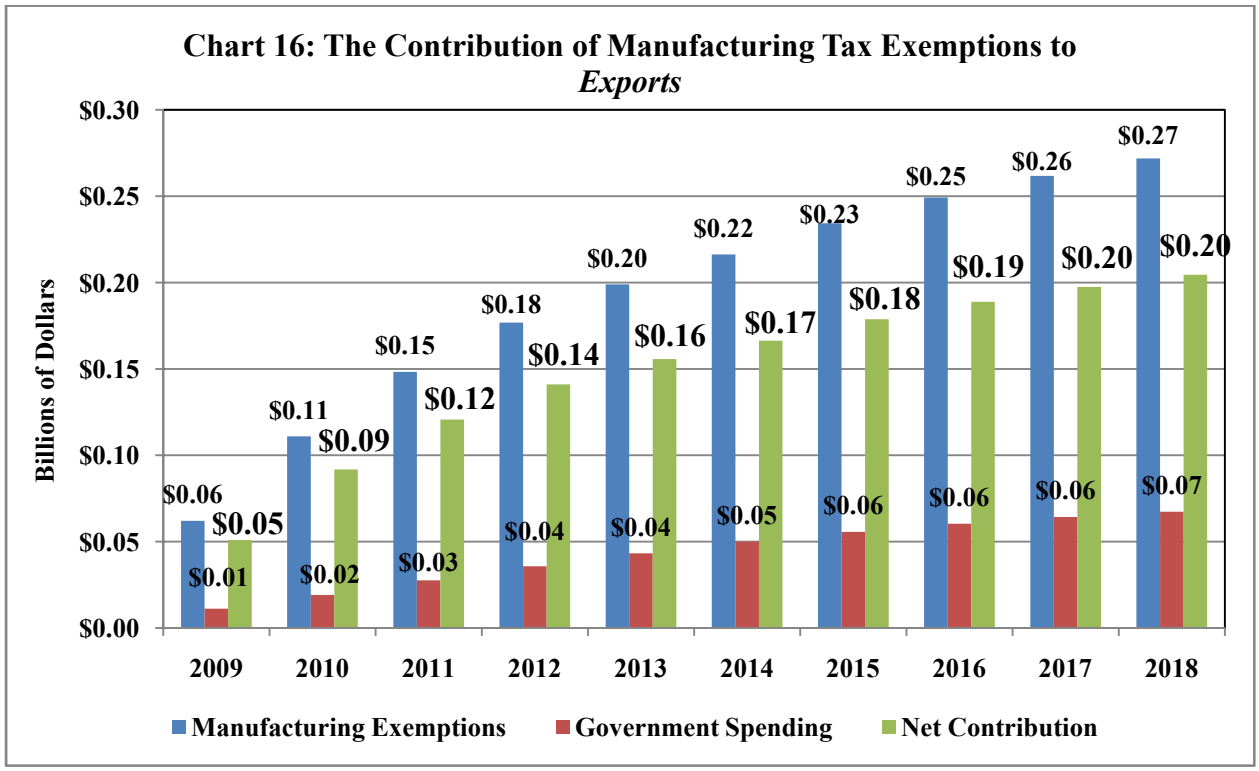
Chart 14 shows that the net contribution of sales tax exemptions to the state *GSP* ($336 million) will reach a net of almost $1 billion by 2018 – after controlling for the contribution of government spending. Chart 15 presents an even greater net contribution to the state *output*, ranging from $370 million in 2009 to $2.3 billion by 2018. Chart 16 shows the net contribution to the state *exports* ranging from $50 million in 2009, to $200 million by 2018.



Source: Florida TaxWatch REMI Analysis



Source: Florida TaxWatch REMI Analysis



Source: Florida TaxWatch REMI Analysis

The Economic Impact of a Potential 10% Capital Investment Incentive for Manufacturing

Due to intensifying concerns about the current economic recession, government, business, and policy leaders in Florida have been discussing a fiscal stimulus package for the state. There is great consensus among economists on the necessity of a stimulus policy during the time of deep economic recession. Fiscal stimulus packages have been employed in the United States since (at least) the Great Depression to expand the economy or avoid an economic downturn. It is, therefore, an appropriate time to examine the potential merits and drawbacks of such policies.

The deepening housing market slump (especially in Florida, where the slump is of a serious and significant magnitude), shaky consumer and business confidence, volatile stock markets, and credit market gridlock are increasingly threatening to curtail consumer and business spending and tilt the national and state economies from slowdowns into outright contractions.

Fiscal stimulus programs are intended to prevent, or at least minimize the impact of, economic downturns. They are programs of increased government spending and/or tax reductions. Heightened government spending serves to directly raise economy-wide total demand, while tax reductions encourage household and business spending. A combination of these proposals may also improve incentives to expand the economy's productive capacity. Generally, the boost in government spending and tax breaks is supposed to be on a one-time basis, although permanent tax reductions have also been included in fiscal stimulus programs in the past.

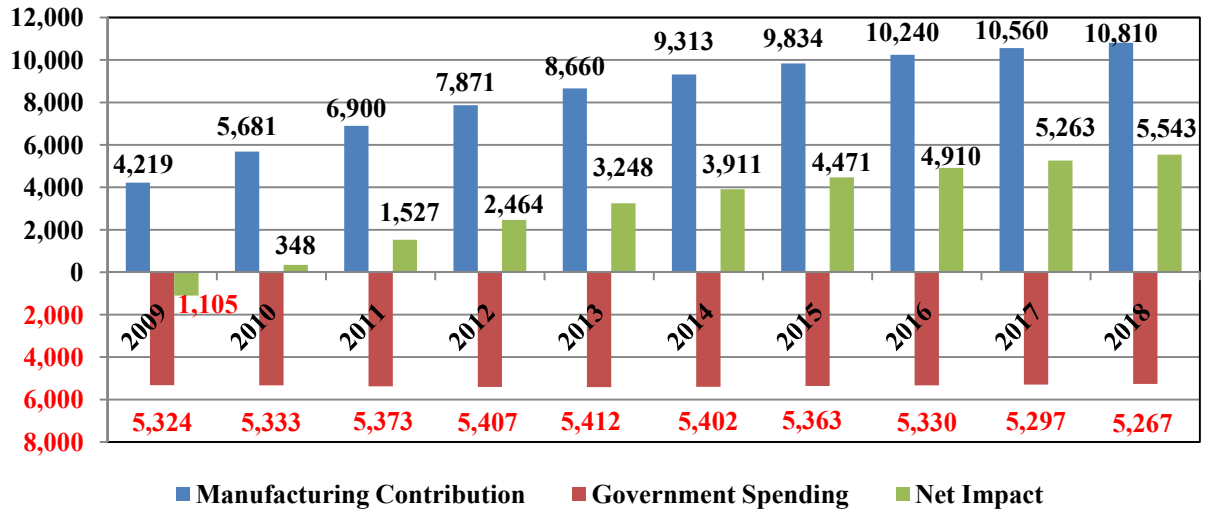
A coalition of business groups in Florida recommended an economic stimulus program focused largely on a broad range of infrastructure investments. The program called for either accelerating the timing or expanding infrastructure investments in areas where a well-defined need has been generally acknowledged. It is important to note that higher government spending will increase the fiscal deficit leading by borrowing more, risking the crowding out private sector borrowing, or the reaction to an expectation of higher future taxes. In contrast, tax reductions may encourage investments in productive human and physical capital, setting the stage for stronger future growth. Though infrequently considered as a source of financing, government efficiency and productivity gains can provide at least some of the resources to finance fiscal stimulus programs.

Using the REMI model, TaxWatch estimated the economic impact of a potential 10 percent capital investment incentive ($260 million in 2009) for the manufacturing sector. The 10 percent capital incentive is a hypothetical amount that is a typical incentive given to invest in capital. TaxWatch chose it to demonstrate the likely effects of an incentive.

Similar to the tax exemption impact analysis, TaxWatch estimated the net economic impact by measuring the difference between the losses resulting from the cut in government spending versus the gains resulting from the increase in the manufacturing investment. Chart 17 illustrates

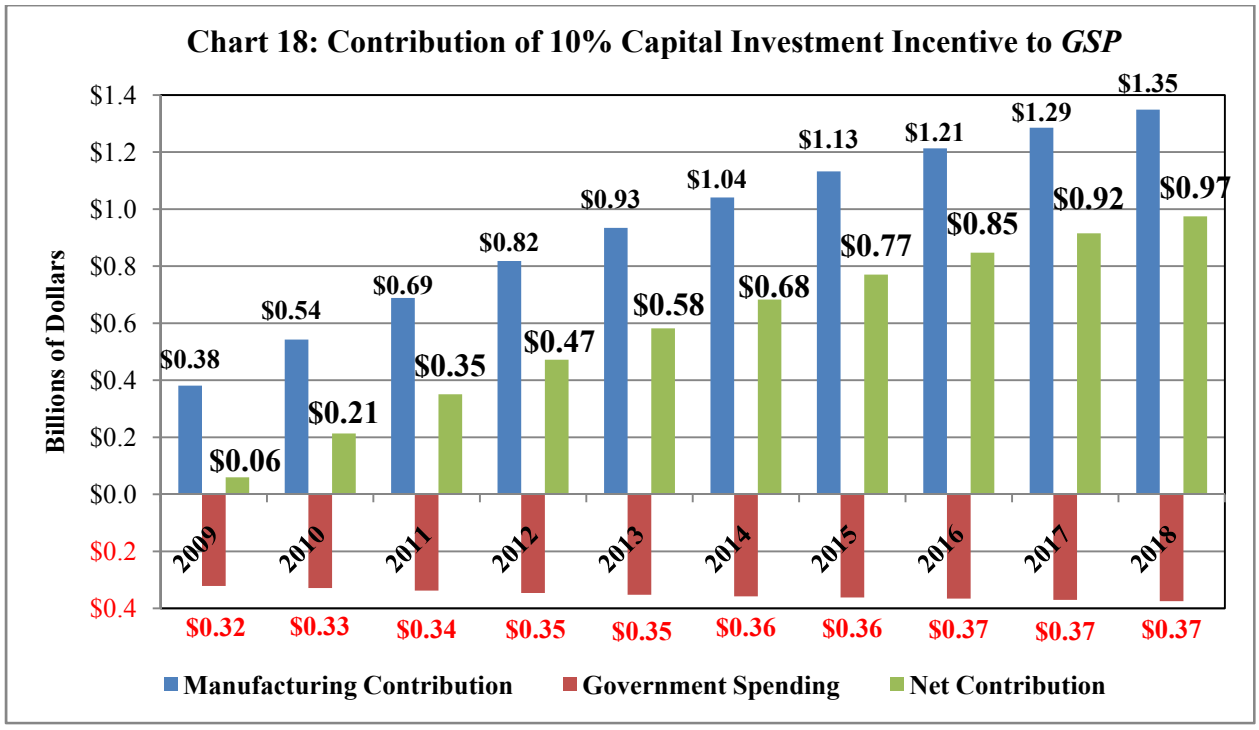
the number of jobs that will be created as a result of a possible capital incentive for the manufacturing sector versus the number of jobs lost due to the government spending cut as a result of declined tax revenues. Even though the net impact (the difference between manufacturing induced jobs versus government spending induced jobs) will be negative in the first year, starting from the second year there will be between 343 to 5,543 jobs added to the economy. Moreover, these manufacturing jobs on average pay well above the median income.

Chart 17: The Net Number of Jobs Created by a 10% Capital Incentive to the Manufacturing Sector

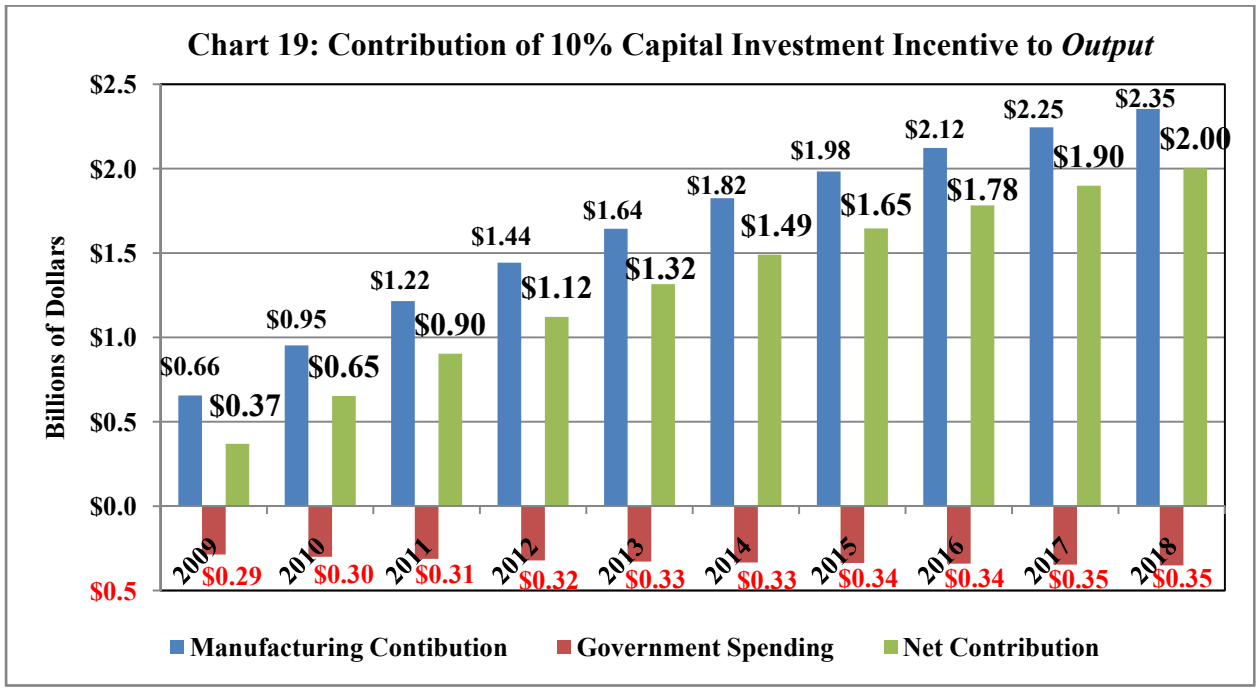


Source: Florida TaxWatch REMI Analysis

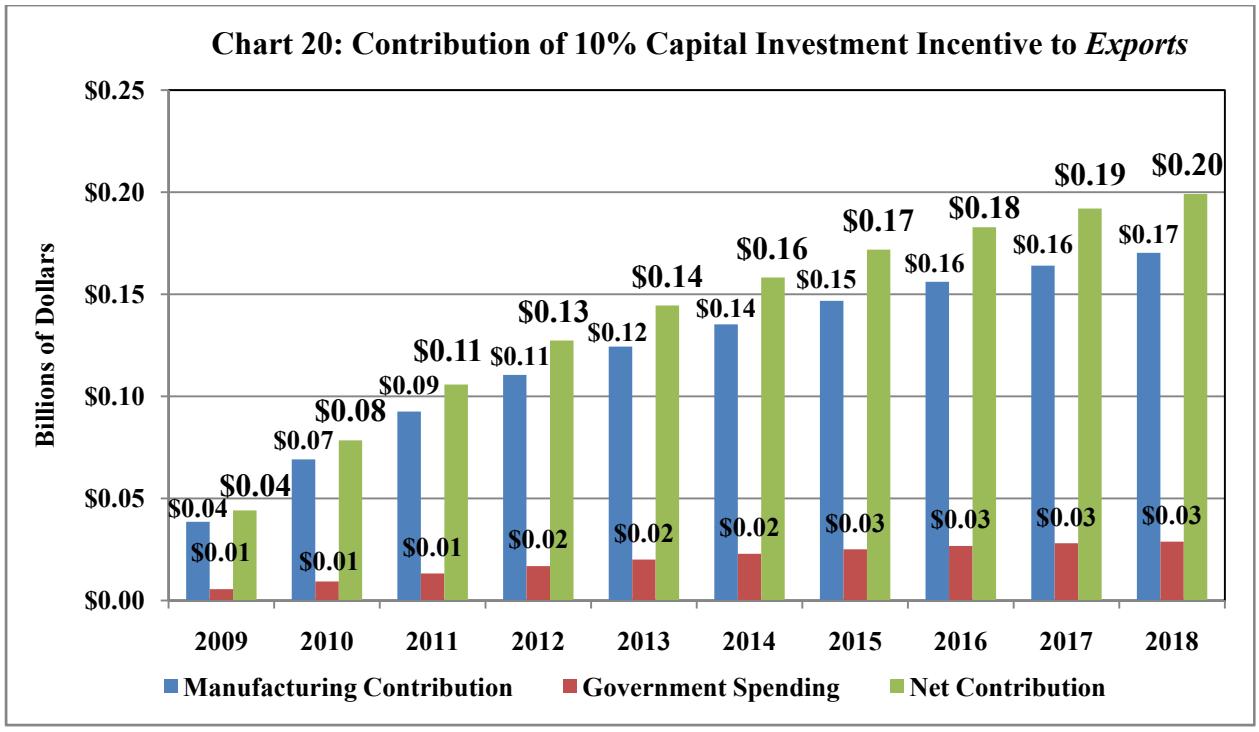
Chart 18 shows the net contribution of capital investment incentive to the state *GSP* will reach almost $1 billion by 2018, after controlling for the losses due to the government spending cut. Chart 19 presents an even greater net contribution to the state *output*, ranging from $370 million in 2009 to $2 billion by 2018. Chart 19 shows the net contribution to the state *exports* ranging from $4 million in 2009 to $20 million by 2018.



Source: Florida TaxWatch REMI Analysis



Source: Florida TaxWatch REMI Analysis



Source: Florida TaxWatch REMI Analysis

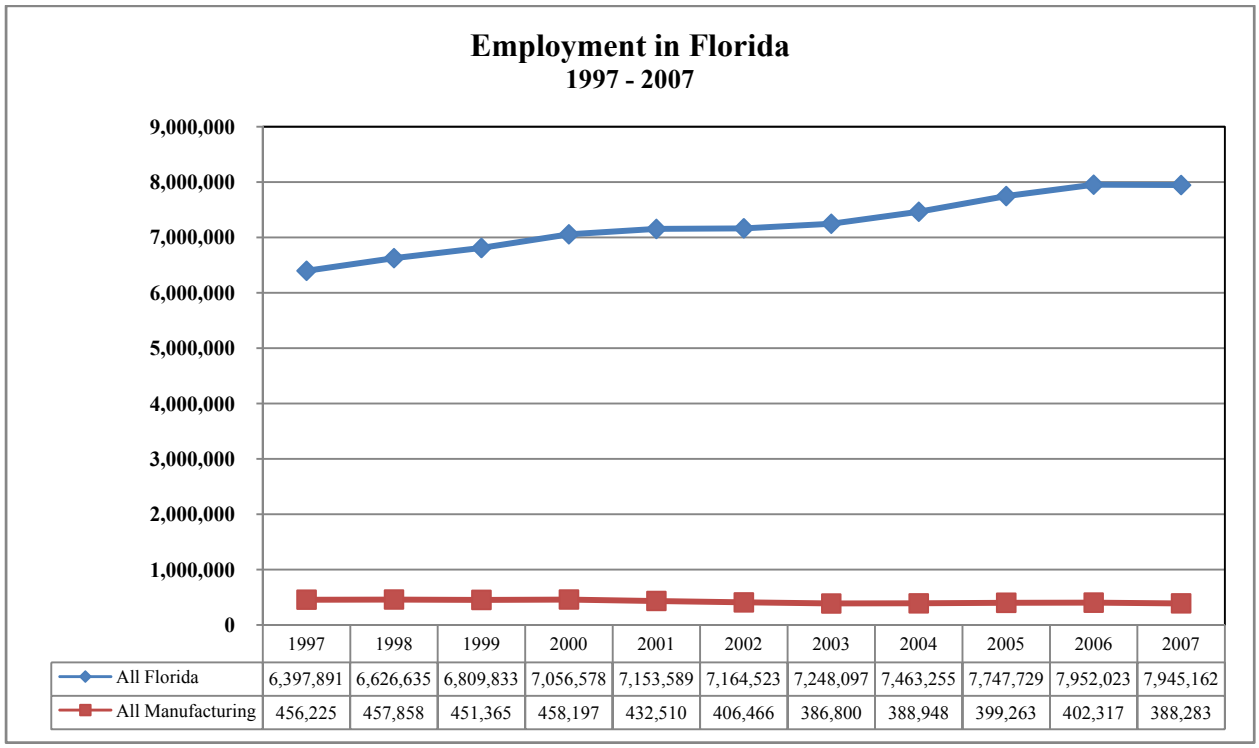
Conclusion

Florida's manufacturing sector has experienced significant growth over the past decade despite a decline in employment within a majority of manufacturing sub-sectors. As was discussed and discovered within this study, Florida's manufacturing sector has great potential to aid to the diversity and strength of Florida's economy. Not only is there a possibility that jobs within manufacturing can be restored to previous levels, but other sectors throughout the state can also benefit from the growth. Although the manufacturing sector is not the largest sector of Florida's economy (accounting for 5 percent of GSP in 2007); it *is* one of the more sizable and valuable ones in terms of output, workers, productivity, innovation, and the trade balance.

Many of the recent trends in Florida have followed national and competitor trends. However, manufacturing in Florida is potentially not as vibrant as it could be, as it is being negatively impacted from its competitors' more beneficial policies that have been able to attract business to their states and away from Florida. Ensuring the stability of the state's manufacturing sector will assist in maintaining the long-term health of Florida's overall economy.

The repeal of tax exemptions that the manufacturing sector relies upon has the potential of devastating this sector of Florida's economy – which would create a ripple effect that would wash over all of the other sectors. Similarly, the sector's influence on the economy is so significant that, were these exemptions to remain and a decision is made to adopt an economic investment incentive, the state would continue to see growth within this industry that has the potential of creating millions of jobs and adding billions of dollars to the overall economy.

Appendix A: Other Tables & Charts



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
All Florida	6,397,891	6,626,635	6,809,833	7,056,578	7,153,589	7,164,523	7,248,097	7,463,255	7,747,729	7,952,023	7,945,162
All Manufacturing	456,225	457,858	451,365	458,197	432,510	406,466	386,800	388,948	399,263	402,317	388,283

Source: U.S. Bureau of Labor Statistics and Florida TaxWatch

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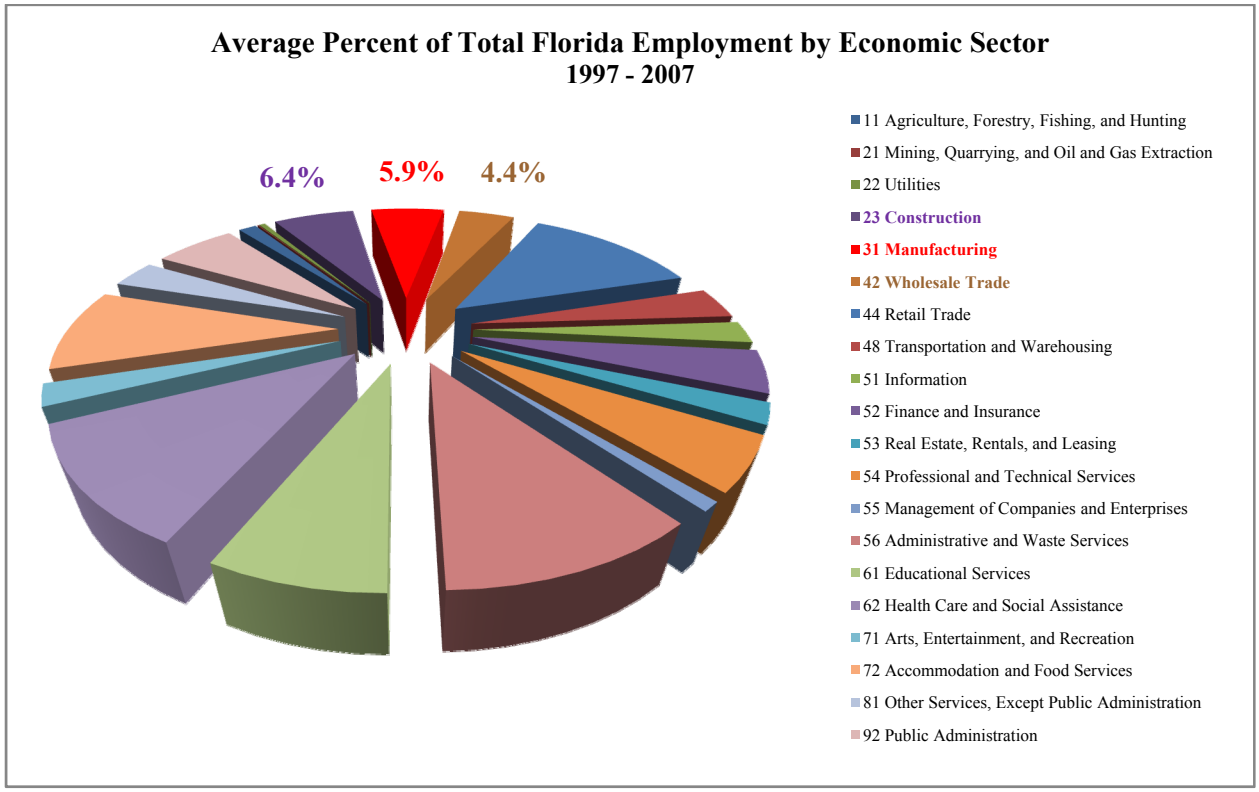
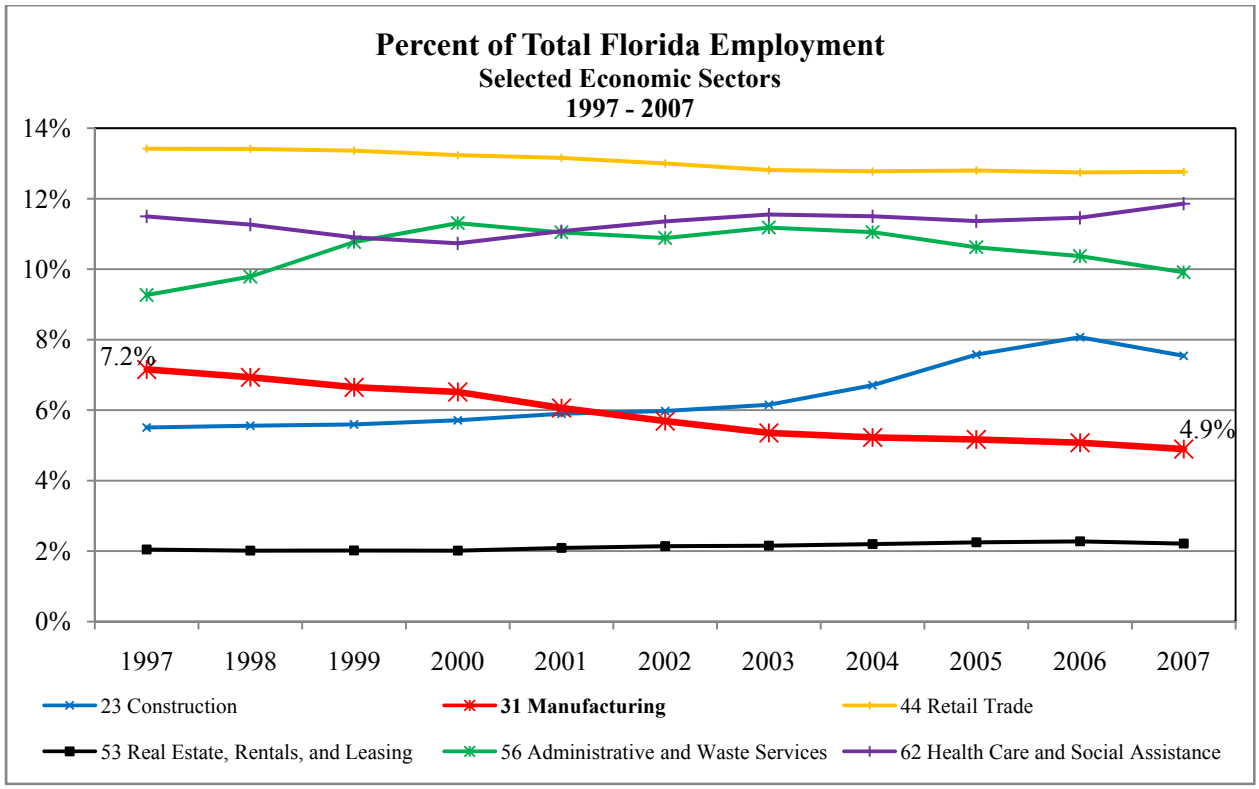


Source: U.S. Bureau of Labor Statistics and Florida TaxWatch



Source: U.S. Bureau of Labor Statistics and Florida TaxWatch

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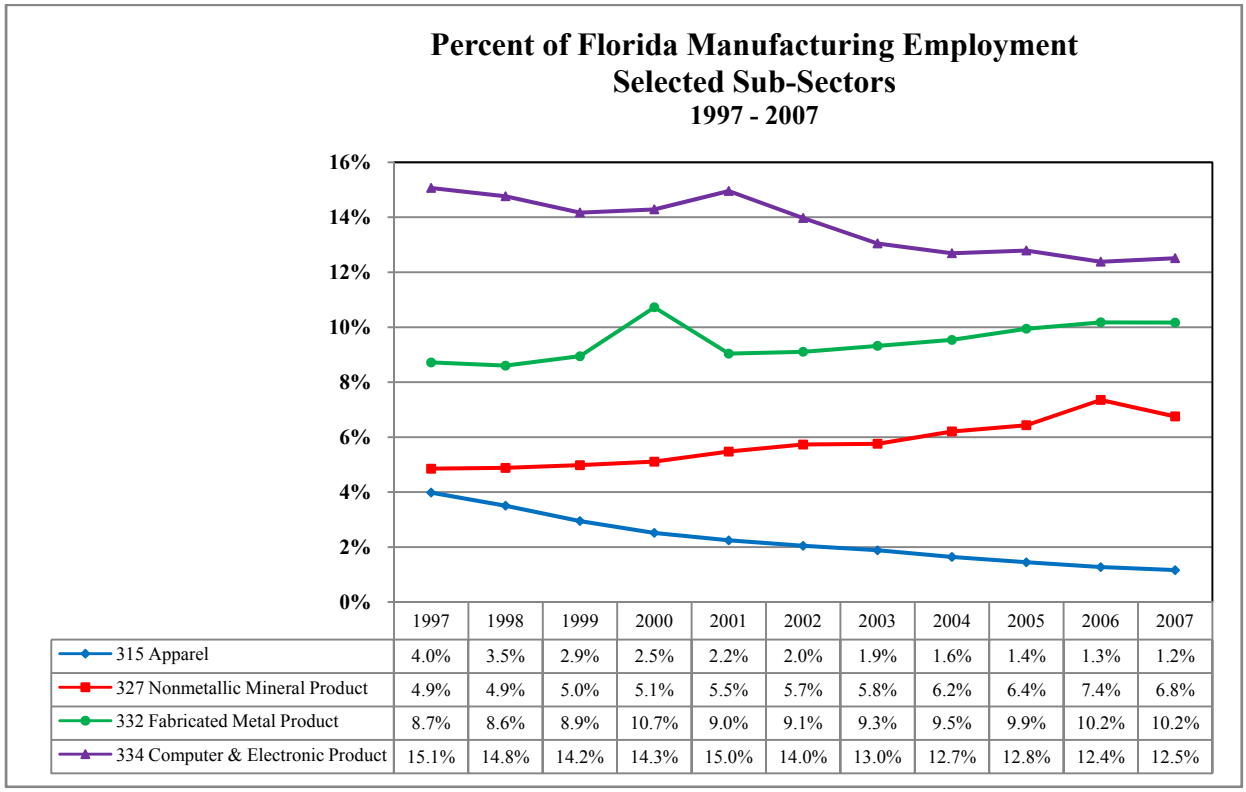

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
315 Apparel	4.0%	3.5%	2.9%	2.5%	2.2%	2.0%	1.9%	1.6%	1.4%	1.3%	1.2%
327 Nonmetallic Mineral Product	4.9%	4.9%	5.0%	5.1%	5.5%	5.7%	5.8%	6.2%	6.4%	7.4%	6.8%
332 Fabricated Metal Product	8.7%	8.6%	8.9%	10.7%	9.0%	9.1%	9.3%	9.5%	9.9%	10.2%	10.2%
334 Computer & Electronic Product	15.1%	14.8%	14.2%	14.3%	15.0%	14.0%	13.0%	12.7%	12.8%	12.4%	12.5%

Source; U.S. Bureau of Labor Statistics and Florida TaxWatch

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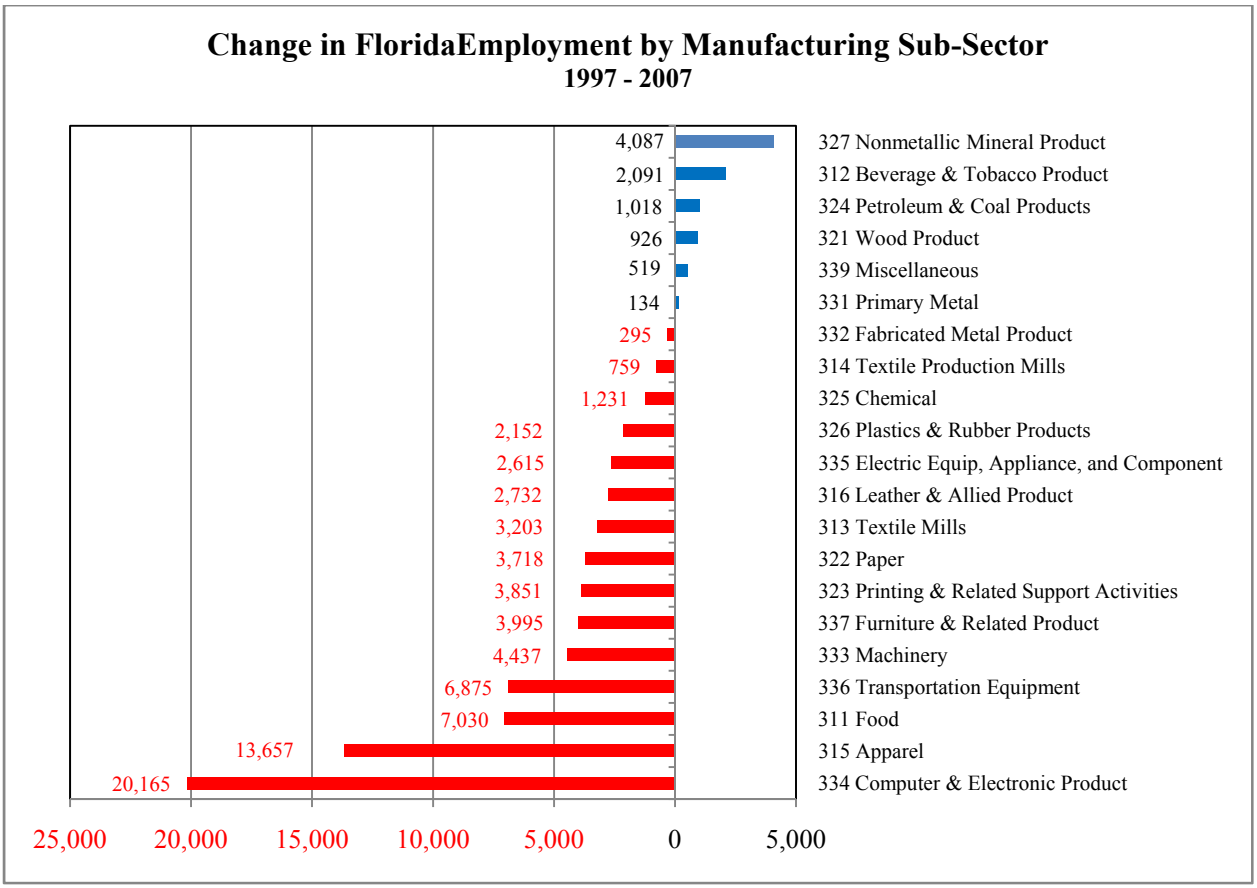

Source: U.S. Bureau of Labor Statistics and Florida TaxWatch

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Production & Productivity Comparisons with Competitors
(1997 – 2006)

	Change in Manufacturing GSP*		Number of Employees		Change in Worker Hours		Change in Value Added*		Change in Value of Shipments*	
United States	-1.0%	7	-22.7%	6	-22.4%	8	2.4%	7	7.0%	6
Alabama	13.5%	3	-24.6%	9	-21.8%	6	15.2%	3	23.7%	3
California	5.3%	5	-22.8%	7	-22.1%	7	-0.9%	9	0.7%	11
Florida	5.4%	4	-20.0%	4	-17.0%	4	4.4%	6	4.3%	9
Georgia	-11.1%	12	-23.1%	8	-20.7%	5	-8.8%	13	-7.0%	12
Kentucky	-22.0%	14	-15.7%	1	-16.8%	3	-10.0%	14	5.3%	8
Louisiana	125.3%	1	-15.9%	3	-16.7%	2	91.6%	1	90.9%	1
Mississippi	-4.3%	10	-29.5%	12	-28.1%	12	-1.5%	10	15.6%	5
New York	-4.7%	11	-32.5%	13	-33.4%	13	-0.8%	8	-9.1%	14
North Carolina	-2.2%	9	-34.9%	14	-35.1%	14	9.7%	5	1.0%	10
South Carolina	-16.3%	13	-27.7%	11	-27.7%	11	-6.7%	12	5.2%	7
Tennessee	1.0%	6	-22.5%	5	-24.0%	9	13.9%	4	17.1%	4
Texas	26.4%	2	-15.7%	1	-13.1%	1	24.9%	2	45.7%	2
Virginia	-1.3%	8	-26.5%	10	-24.9%	10	-4.1%	11	-8.4%	13

Source: U.S. Census Bureau and Florida TaxWatch

***Note:** Adjusted for 2006 dollars

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Average Investment Per Employee in Manufacturing (2006)				
Rank		**Dollars Per Employee**	**Employees**	**Machinery & Equip. ($1000)**
1	Louisiana	$24,488.23	138,716	$3,396,910
2	Delaware	$20,425.34	33,470	$683,636
3	New Mexico	$19,832.45	32,312	$640,826
4	Idaho	$16,633.47	55,434	$922,060
5	Montana	$15,407.15	16,996	$261,860
6	Texas	$14,378.42	808,120	$11,619,487
7	West Virginia	$13,624.98	59,472	$810,305
8	Nevada	$11,742.07	44,272	$519,845
9	Tennessee	$10,785.70	373,884	$4,032,600
10	Arizona	$10,335.42	161,883	$1,673,129
11	New Jersey	$10,120.26	290,183	$2,936,727
12	Kentucky	$9,906.89	243,147	$2,408,831
13	South Carolina	$9,658.47	248,440	$2,399,551
14	Washington	$9,371.30	254,277	$2,382,905
15	Hawaii	$9,326.13	13,933	$129,941
16	Alabama	$9,245.33	264,983	$2,449,854
17	Oregon	$9,209.93	172,348	$1,587,313
18	Kansas	$9,116.81	173,294	$1,579,888
19	Mississippi	$9,070.60	160,047	$1,451,723
20	Oklahoma	$8,909.74	134,604	$1,199,286
21	Michigan	$8,877.70	577,207	$5,124,268
22	Illinois	$8,825.62	638,765	$5,637,495
23	Ohio	$8,788.14	755,714	$6,641,322
24	Indiana	$8,715.71	527,291	$4,595,713
25	California	$8,501.67	1,385,356	$11,777,836
26	Georgia	$8,247.69	408,424	$3,368,553
27	Virginia	$8,117.05	272,230	$2,209,705
28	Iowa	$7,924.87	224,587	$1,779,822
29	Alaska	$7,886.50	10,969	$86,507
30	Utah	$7,838.24	111,923	$877,279
31	Maine	$7,811.08	54,351	$424,540
32	Rhode Island	$7,784.60	53,241	$414,460
33	North Dakota	$7,747.75	23,037	$178,485
34	Maryland	$7,730.64	132,145	$1,021,566
35	North Carolina	$7,627.74	501,847	$3,827,957
36	Florida	$7,599.91	342,055	$2,599,588
37	Pennsylvania	$7,553.15	643,155	$4,857,849
38	Minnesota	$7,491.04	325,895	$2,441,292
39	Missouri	$7,472.10	284,982	$2,129,414
40	Massachusetts	$7,406.29	282,582	$2,092,883
41	Wisconsin	$7,388.94	471,262	$3,482,125
42	New Hampshire	$7,284.73	74,517	$542,836
43	Nebraska	$7,213.82	100,642	$726,013
44	Arkansas	$7,189.47	188,513	$1,355,309
45	New York	$6,676.08	525,916	$3,511,059
46	South Dakota	$6,636.86	38,217	$253,641
47	Colorado	$6,616.15	128,041	$847,139
48	Connecticut	$5,874.17	175,608	$1,031,552
49	Vermont	$0.00	34,416	$0
50	Wyoming	$0.00	10,281	$0
	District of Columbia	$0.00	1,714	$0
	United States	**$9,035.21**	**12,984,696**	**$117,319,454**

Source: U.S. Census Bureau Annual Survey of Manufactures: Geographic Area Statistics: Supplemental Statistics for the United States and States: 2006 and 2005 and Florida TaxWatch

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2006 Florida Manufacturing Worker Production by Sub-Sector						
			2006 Per Production Worker (*$000 dollars*)			
	Establish.	Employees	Value Added	Total Cost of Materials	Total Value of Shipments	Total Cap. Expend.
Total Manufacturing	**16,772**	**342,055**	**$47,533,495**	**$44,286,431**	**$91,593,060**	**$2,909,323**
Food Product	1,113	29,897	$4,980,204	$5,178,881	$10,224,230	$287,183
Beverage & Tobacco Product	169	7,482	$2,895,102	$2,282,999	$5,177,150	$185,937
Textile Mills	144	1,150	$110,816	$122,338	$231,301	$8,624
Textile Product Mills	523	4,753	$288,253	$240,265	$524,869	$7,174
Apparel	374	4,394	$215,536	$245,134	$463,657	$5,812
Wood Product	632	20,211	$1,447,701	$2,016,218	$3,464,302	$88,513
Paper Product	212	9,182	$1,693,053	$2,023,361	$3,724,748	$336,576
Printing & Related Support Activities	2,175	21,697	$1,815,403	$1,191,566	$2,978,197	$111,905
Petroleum & Coal Product	67	1,284	$373,130	$495,675	$870,091	$16,943
Chemical Product	639	16,428	$2,693,827	$5,550,648	$8,252,422	$266,547
Plastics & Rubber Products	633	16,081	$1,561,239	$1,858,335	$3,395,376	$87,794
Nonmetallic Mineral Product	1,160	23,569	$4,399,656	$3,323,692	$7,707,083	$343,833
Primary Metal	165	3,774	$502,593	$943,377	$1,441,036	$35,553
Fabricated Metal Product	2,105	38,089	$3,967,675	$3,659,569	$7,566,318	$250,361
Machinery	913	19,051	$2,481,285	$2,528,217	$4,932,634	$88,324
Computer & Electronic Product	837	43,858	$8,124,396	$5,964,505	$14,045,881	$341,059
Electrical Equip, Appl, & Component	335	8,047	$736,794	$676,862	$1,410,501	$42,126
Transportation Equipment	891	29,127	$2,952,013	$3,060,535	$5,986,183	$128,301
Furniture & Related Product	1,717	15,241	$1,130,859	$1,004,332	$2,141,788	$68,638
Miscellaneous	1,880	28,209	$5,135,721	$1,876,909	$6,977,013	$206,963

Two years of sub-sector data are presented to show readers where the growths and contractions within the manufacturing sector are occurring. The food product manufacturing sub-sector is highlighted as an example.

2005 Florida Manufacturing Worker Production by Sub-Sector in 2006 Dollars						
			2005 Per Production Worker (*$000 dollars*)			
	Establish.	Employees		Total Cost of Materials	Total Value of Shipments	Total Capital Expenditures
Total Manufacturing	**16,601**	**348,069**	**$49,559,496**	**$45,908,292**	**$95,396,680**	**$2,907,278**
Food Product	1,112	31,391	$5,125,429	$5,315,336	$10,682,868	$367,807
Beverage & Tobacco Products	169	7,607	$2,883,351	$2,443,194	$5,335,891	$187,983
Textile Mills	172	1,109	$92,498	$145,081	$237,113	$4,540
Textile Product Mills	529	4,824	$344,712	$320,634	$651,305	$6,136
Apparel	403	6,060	$408,105	$470,042	$879,517	$14,598
Wood Product	631	19,545	$1,557,917	$2,208,328	$3,761,759	$111,365
Paper Product	218	9,358	$1,732,044	$2,039,720	$3,766,203	$183,472
Printing & Related Support Activities	2,235	20,879	$1,808,122	$1,151,283	$2,935,238	$109,654
Petroleum & Coal Product	75	1,238	$339,392	$414,826	$748,233	$19,445
Chemical Product	641	17,328	$3,336,148	$5,775,925	$9,071,721	$310,952
Plastics & Rubber Product	622	16,388	$1,609,706	$1,774,849	$3,377,761	$103,737
Nonmetallic Mineral Product	910	22,151	$3,997,308	$3,192,463	$7,148,737	$269,400
Primary Metal	157	3,892	$491,863	$1,059,788	$1,511,658	$36,686
Fabricated Metal Product	2,047	36,870	$4,156,898	$3,382,576	$7,447,114	$224,001
Machinery	938	19,061	$2,508,030	$2,461,559	$4,922,145	$111,925
Computer & Electronic Product	877	46,328	$8,470,932	$6,862,347	$15,275,874	$319,061
Electrical Equip, Appl, & Component	326	8,246	$818,875	$753,366	$1,553,076	$30,561
Transportation Equipment	893	30,199	$3,212,402	$3,134,757	$6,449,159	$123,613
Furniture & Related Product	1,727	15,996	$1,315,039	$1,073,622	$2,371,163	$78,438
Miscellaneous	1,837	28,660	$5,278,417	$1,871,840	$7,161,652	$291,255

Source: U.S. Census Bureau Annual Survey of Manufactures: 2006 and 2005 & U.S. Bureau of Labor Statistics FTP Database
Note: U.S. Census Bureau Data excludes Leather and Allied Product Sub-sector (NAICS 316)

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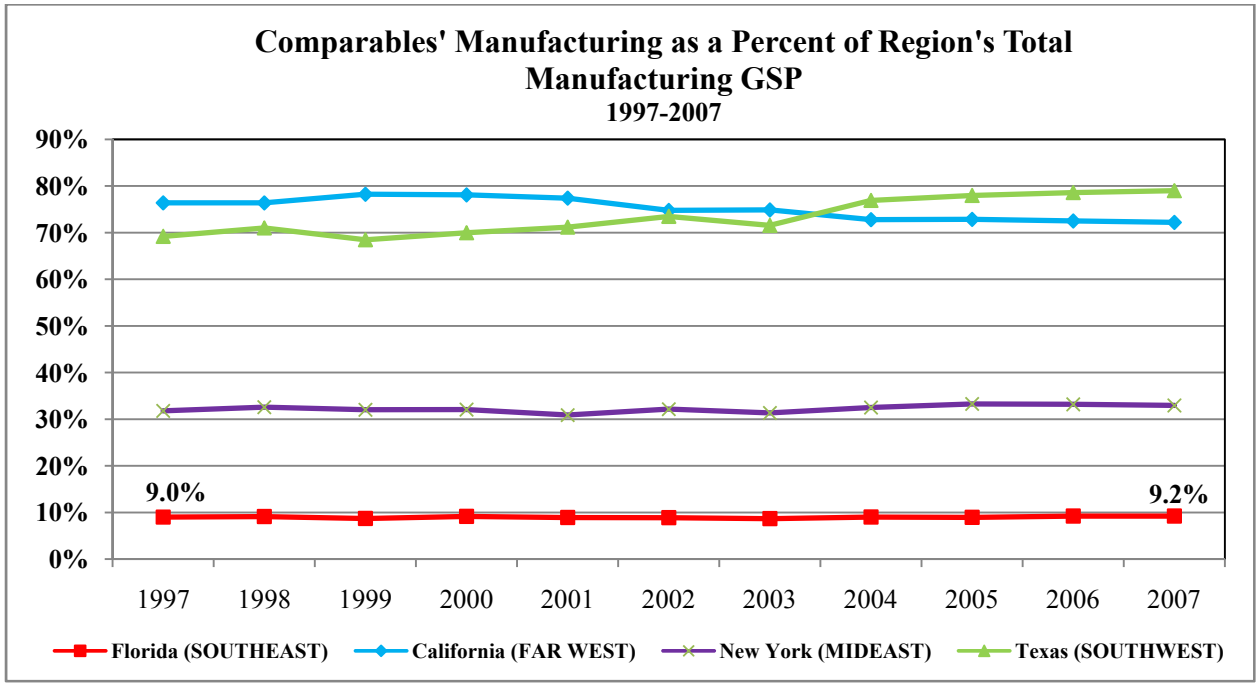
Although Florida's percentage is lower than its competitors' percentages, the Southeast region includes a larger number of states (12) than others (Far West = 6; Mideast = 6; Southwest = 4).



Source: U.S. Bureau of Economic Analysis and Florida TaxWatch

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Florida GSP by Manufacturing Sub-Sector
(Millions of 2007 Dollars)

	1997	2002	2006	2007
Manufacturing	**$34,546**	**$33,411**	**$36,403**	**$36,591**
Durable goods	*$21,619*	*$20,964*	*$25,330*	*$25,383*
Wood product	$865	$1,075	$1,514	(N/A)
Nonmetallic mineral product	$1,776	$2,376	$4,252	(N/A)
Primary metal	$440	$368	$523	(N/A)
Fabricated metal product	$2,411	$2,536	$3,277	(N/A)
Machinery	$1,571	$2,225	$2,388	(N/A)
Computer and electronic product	$4,804	$3,925	$4,209	(N/A)
Electrical equipment and appliance	$774	$754	$648	(N/A)
Motor vehicle, body, trailer, and parts	$580	$572	$610	(N/A)
Other transportation equipment	$4,889	$3,174	$3,212	(N/A)
Furniture and related product	$883	$967	$952	(N/A)
Miscellaneous	$2,626	$2,992	$3,744	(N/A)
Nondurable goods	*$12,927*	*$12,448*	*$11,073*	*$11,207*
Food product	$4,398	$5,076	$4,405	(N/A)
Textile and textile product mills	$462	$311	$282	(N/A)
Apparel	$836	$480	$264	(N/A)
Paper	$1,380	$1,160	$1,155	(N/A)
Printing and related support activities	$1,538	$1,501	$1,461	(N/A)
Petroleum and coal products	$251	$210	$496	(N/A)
Chemical	$2,758	$2,600	$1,730	(N/A)
Plastics and rubber products	$1,303	$1,109	$1,279	(N/A)

Source: Bureau of Economic Analysis; **Note**: Complete data set for 2007 not available at time of publication

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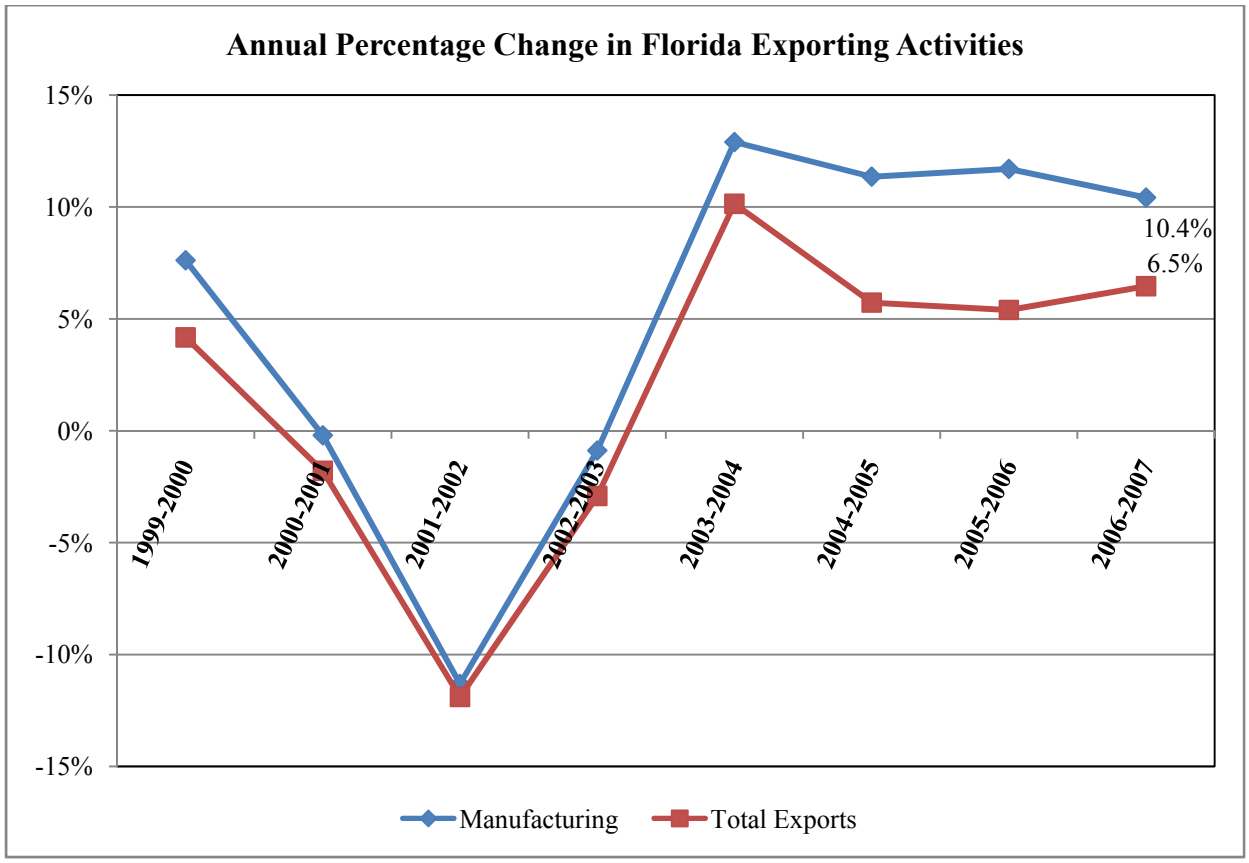

Source: Foreign Trade Division, U.S. Census Bureau and Florida TaxWatch

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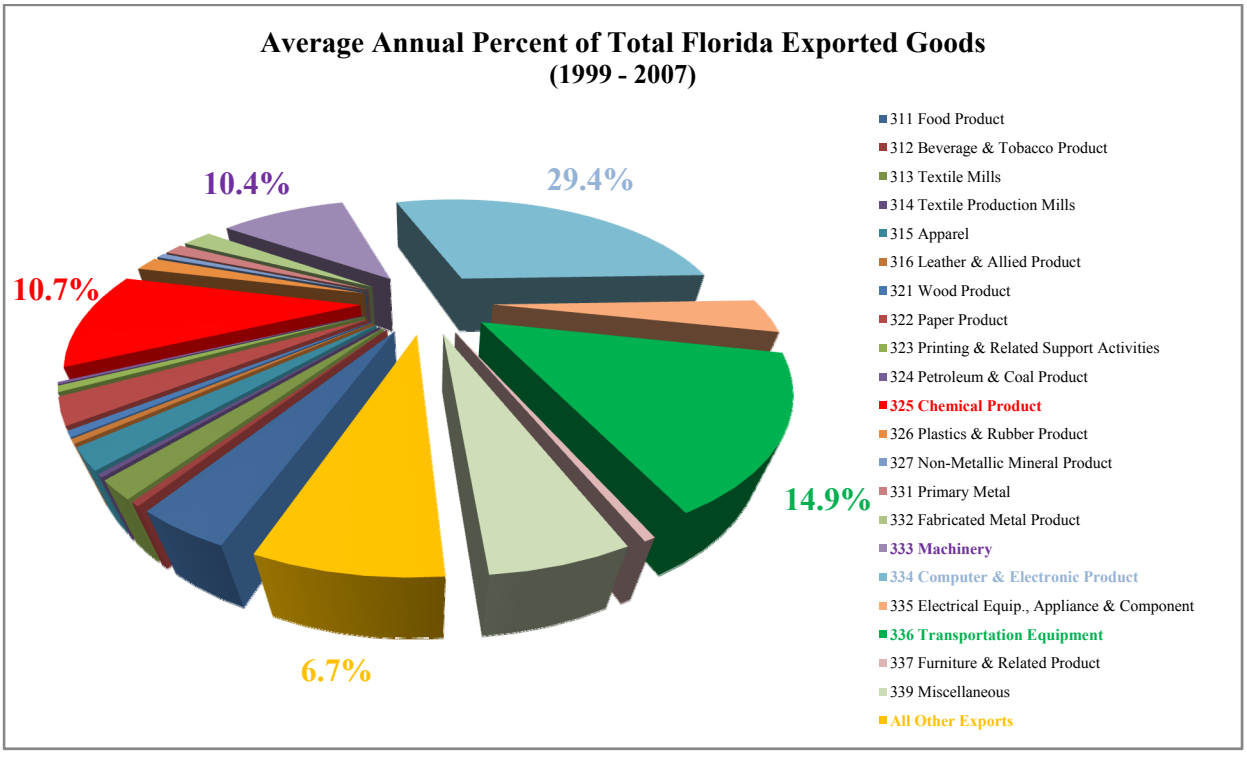
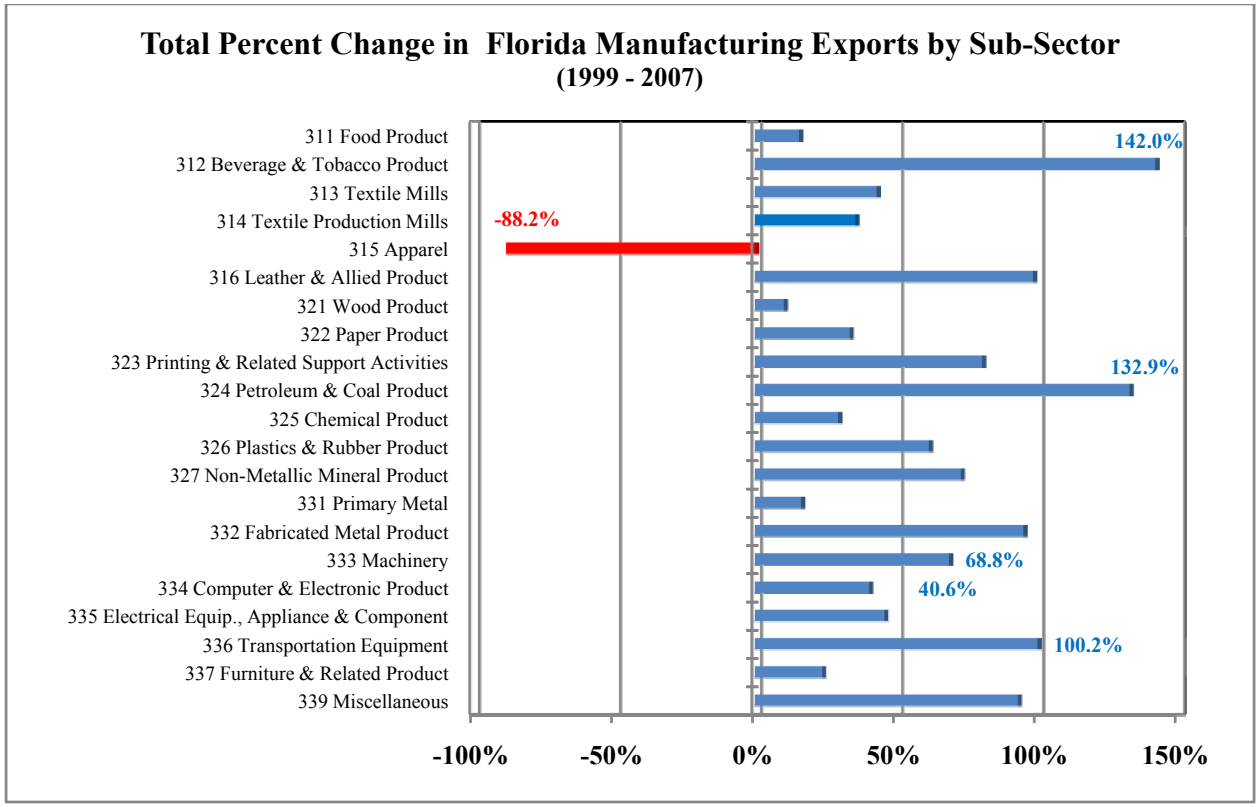
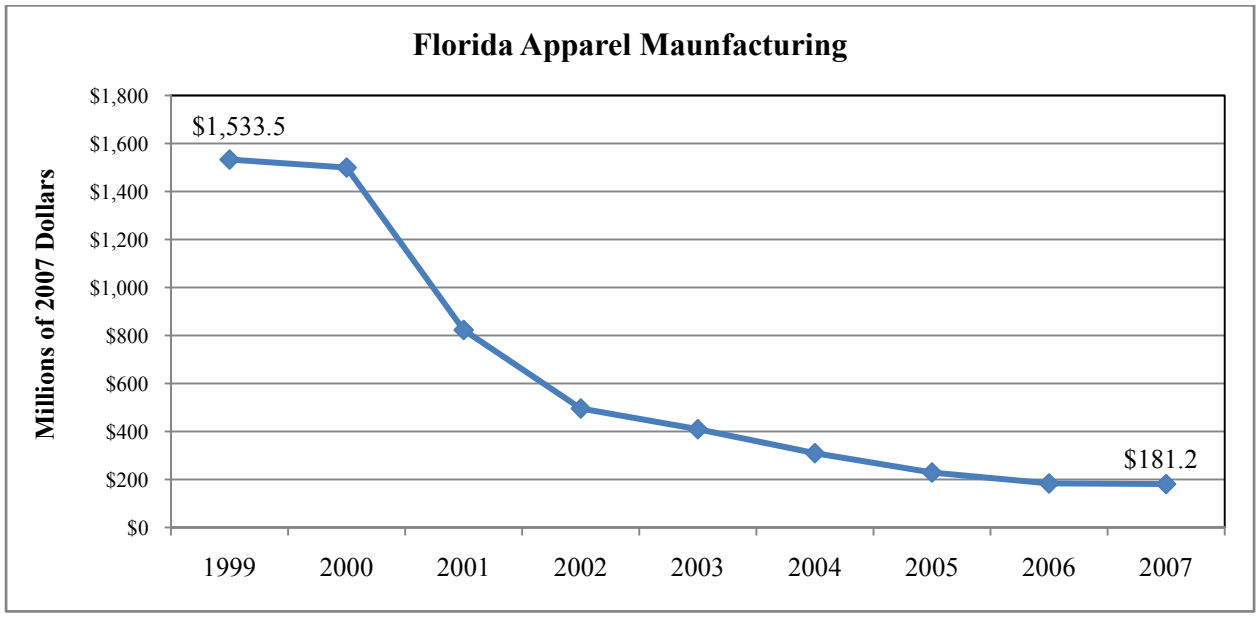


Source: Foreign Trade Division, U.S. Census Bureau and Florida TaxWatch

Apparel manufacturing was the only manufacturing sub-sector to experience a decline in total inflation-adjusted exported goods (approximately 88 percent, or about $1.35 billion) and was the only sub-sectors that did not experience an increase from 1999 to 2007. Please see the chart on the next page.



Source: Foreign Trade Division, U.S. Census Bureau and Florida TaxWatch



Source: Foreign Trade Division, U.S. Census Bureau

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Annual Percentage Changes in Manufacturing Exports (2007 Dollars)								
	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
United States	10.4%	-9.3%	-6.9%	1.5%	9.7%	7.2%	11.0%	7.5%
Alabama	14.5%	0.1%	7.1%	-1.4%	5.0%	14.9%	24.7%	0.3%
California	20.1%	-13.7%	-16.1%	-1.7%	14.4%	2.0%	6.1%	0.9%
Florida	7.6%	-0.2%	-11.3%	-0.9%	12.9%	11.4%	11.7%	10.4%
Georgia	6.2%	-4.6%	-3.9%	11.1%	17.7%	2.5%	-7.0%	11.8%
Kentucky	4.7%	-8.8%	18.3%	-3.1%	20.9%	11.4%	12.0%	11.6%
Louisiana	8.9%	-5.4%	-2.4%	-1.3%	13.7%	10.5%	15.7%	19.3%
Mississippi	19.9%	29.5%	-27.8%	-8.3%	20.4%	24.0%	10.2%	0.9%
New York	11.4%	-5.3%	-12.9%	4.6%	8.8%	8.2%	7.8%	16.0%
North Carolina	18.9%	-8.7%	-13.6%	8.6%	8.7%	4.9%	4.1%	6.3%
South Carolina	17.6%	14.1%	-4.9%	19.6%	9.6%	1.0%	-6.4%	18.4%
Tennessee	10.6%	-4.5%	0.5%	1.2%	22.3%	19.0%	13.2%	-0.2%
Texas	22.7%	-10.8%	-2.0%	1.6%	15.7%	6.5%	13.6%	7.1%
Virginia	-1.0%	-6.5%	-7.9%	-2.6%	5.4%	-0.3%	13.7%	14.0%

Source: Foreign Trade Division, U.S. Census Bureau and Florida TaxWatch

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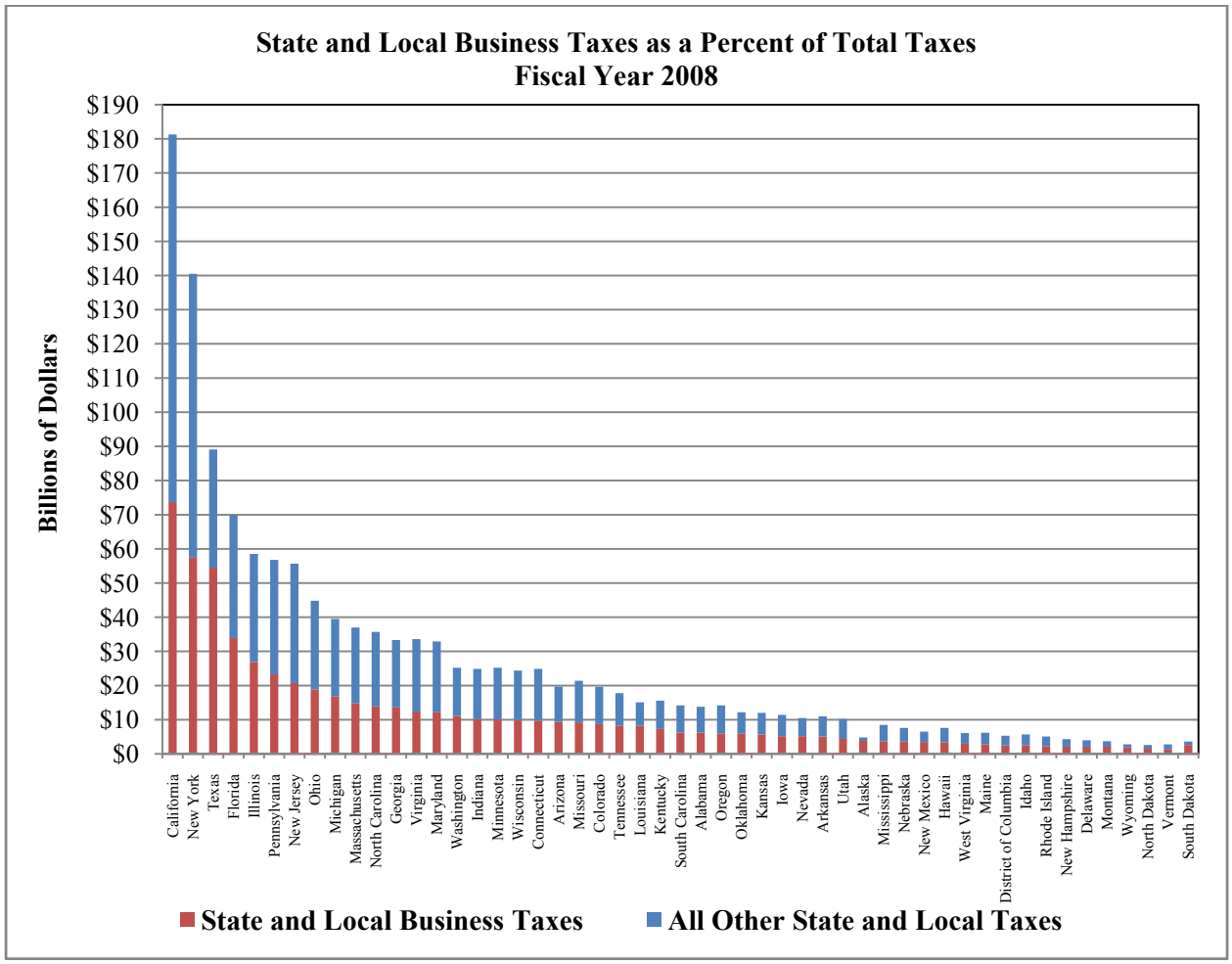

Source: *Total State & Local Business Taxes: 50 State Estimates for Fiscal Year 2008*, Ernst & Young, LLC and Center On State Taxation (COST), Table 7

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Appendix B: Information Relating Other Manufacturing Tax Data

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Property and Inventory Taxes

Florida's property tax structure differs from a number of other states', in that there is no tax levy at the state level. Rather, property taxes are levied by counties, cities, school districts, and special districts (e.g. regional water management districts). Other states, however, have the authority to tax business and manufacturing sector property at the state level.

Property Tax Authorities, by State					
	State	**County**	**City**	**School District**	**Special District**
Florida	No	Yes	Yes	Yes	Yes
Texas	No	Yes	Yes	Yes	Yes
Ohio	No	Yes	Yes	No	Yes
North Carolina	No	Yes	Yes	No	No
Michigan	Yes	Yes	Yes	No	No
Georgia	Yes	Yes	Yes	Yes	No

Source: Enterprise Florida

In Florida there is not a state tax levy on real or tangible property, nor is there an inventory tax. However, Florida does tax this at the local level. Based on information related to other states' inventory taxes, the lack of such a levy is highly beneficial to Florida's manufacturing sector.

For example, Georgia has an inventory tax (unless exempted locally) and John Heavener, President of the Georgia Retail Association, said in an interview in December of 2008[25] that this tax is going to severely impact businesses throughout the state, as lackluster holiday sales will force stores to choose between losing money through a decrease in price below profitability as a way to move inventory or to pay more taxes on the inventory that remains on their shelves. Florida retailers' sales are likely to be similarly affected by the economic downturn, but may not be as desperate to sell inventory at a loss, which would thereby pass the burden on to manufacturers and harm the health of the state's economy through reduced orders, establishments going out of business, decreasing the workforce to cover costs.

Another example of the influence on state business and manufacturing practices can be found in Michigan, which has a cigarette inventory tax[26]. Through form 4096B, Michigan retailers that engage in the sale of tobacco products must take inventory, by count of individual item (e.g. per cigarette), and remit a tax based on the amount of product that they have in their business (e.g. $0.10 per cigarette). The impacts on the sector and retailers include slowed retailer purchasing when nearing time to pay the tobacco inventory tax, reduced quality or availability of product for the consumer, and lost time of employees due to the necessity of calculating the mandatory tax

[25] http://publicbroadcasting.net/wabe/news.newsmain?action=article&ARTICLE_ID=1446468&sectionID=1 Last Retrieved 1-9-09
[26] http://www.michigan.gov/taxes/0,1607,7-238-43542_43547---,00.html Last Retrieved on 1-9-09

remittance. Tobacco products are a portion of Florida's highest manufactured product exports, so it can be inferred that this tax has an influence on the state's manufacturing sector.

Emergency Excise Taxes

The Florida Legislature created the Emergency Excise tax in 1982 to counter federal changes to the IRS code. During a Special Session in 1984 the Florida Legislature increased this tax from the original 2 percent to 2.2 percent of assets placed in service between the end of 1980 and the beginning of 1987. Specific calculations and exemption information are provided within F.S. 221.02. The 2008 Tax Handbook estimated the value of exemptions, credits, and deductions applicable to this tax will be approximately $1.1 million for FY 2009.

Corporate Tax

The formula that determines the corporate income tax rate is different in each state; but it is typically a compiled total of a certain percentage of each sales, property, and payroll taxes. For example, in Florida the rate consists of 50 percent sales taxes, 25 percent property, and 25 percent payroll, whereas Ohio's formula is comprised of 60 percent sales taxes, 20 percent property, and 20 percent payroll. Of the states listed in Enterprise Florida's evaluation referenced in the beginning of this section, comparable states such as the Carolinas, Tennessee, and Virginia have the same formula as Florida, while Georgia and Texas corporate tax rates are based solely on sales taxes. Florida TaxWatch's Center for Competitive Florida is completing a soon to be released research report on the advantages and disadvantages of modifying Florida's corporate income tax to encourage greater capital formation, prosperity, job creation, and payroll by apportionment based only on sales in our state

As shown in Table 10 in the report, Florida's corporate income tax accounts for an estimated 6.5 percent of all tax revenues, or $2.2 billion, in fiscal year 2008. The manufacturing sector's contributions are estimated at approximately $200 million, or nearly 10 percent of all corporate income tax collections. This is approximately twice the proportion of its share of employment.

According to the Tax Foundation, a nonpartisan tax research group based in Washington, D.C., in 2008 Florida ranked as the 10th lowest total corporate tax rate in the nation (adjusted total federal and state corporate tax rate); however, this equates to the 42nd highest in the world (below only Japan), when including OECD counties' rates with those of individual U.S. states. By itself, Florida's corporate tax rate (5.5 percent) remained the 10th lowest in the nation, but fell to 46th overall in the world behind Switzerland, Germany, Canada, Luxembourg, and Japan[27].

Utility Taxes

Utility taxes are partially exempted under F.S. 212.08(7)(ff). However, the manufacturing sector must still pay millions of dollars in utility taxes and costs. The statute describes levels of use

[27] http://www.taxfoundation.org/taxdata/show/23034.html Last Retrieved 2-23-09

eligible for exemption[28] and specifies which standardized sectors[29] are candidates for this exemption.

Estimated Utility Taxes Exempted for Florida Manufacturers (Millions of Dollars)						
FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
$49.7	$52.1	$52.3	$57.5	$64.6	$71.3	$73.9

Source: Office of Economic and Demographic Research, Florida Legislature; 2002-2008 Tax Handbooks

However, of comparable states, Florida's electricity rate for 2007 was among the highest[30]. The index found in Table 11 of the report also alludes to this fact, in that Florida ranked 36th of 50 states in relation to the lowest (1) to highest (50) electricity sub-index of the cost of doing business index.

Other Major Taxes and Costs

Payroll taxes[31] are varied across all states due to state income tax withholdings amounts, but also consist of some standardized taxes for which the employer is responsible for paying half, such as the federal government income tax, Social Security, and Medicare (FICA, or Federal Insurance Contributions Act, taxes). Employers are responsible for a total of 50 percent of FICA taxes, or 7.65 percent of an employee's pay per period up to an annual level adjusted for inflation. Federal and state unemployment taxes (FUTA and SUTA[32], respectively) are also components of payroll taxes that add to the total cost of employers above and beyond the employee's wages.

Voluntary employee payroll deductions may also result in extra costs to the employer, depending upon benefits package offered. For example, if an employer offers health or life insurance, retirement contributions, or employee stock purchase plans, then the employer often matches or shares some of the expense related to these options.

Workers' Compensation premiums are also an expensive cost to employers[33]. In Florida, there has been a dramatic and steady decrease (more than 70 percent) in the cost of these premiums in recent years[34]. A decline in workers' comp petitions for benefits have contributed to this reduction, as they have steadily dropped off from around 12,500 in February of 2003 to only

[28] For example, if at least 75 percent of electricity is used in operating machinery for production of tangible goods for future sales, then 100 percent of utility cost is exempted; if 50 percent of electricity, then 50 percent of this cost is exempted

[29] SIC Sector Major Group Numbers 10, 12, 13, 14, 20, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, and 39 and Sector Group Number 212. SIC = Standard Industrial Classification Manual (Since converted to NAICS classification system)

[30] Florida's $77.80 per 1,000 kwh was second only to Texas in Enterprise Florida's 2008 study

[31] Estimated payroll taxes for the manufacturing sector in 2007 were $300 million (1/4 of all payroll taxes in Florida)

[32] 2008 Tax Handbook estimates collections at approximately $845 million (an increase of 5.47 percent of FY 2008's estimated $801 million – which is a decrease of about 31 percent from a high of $1.233 billion in FY 2006)

[33] Enterprise Florida estimated that employers pay approximately $156,000 per 100 employees per year in worker's compensation premiums

[34] Workers' Compensation Administration Trust Fund assessments have declined from $150.7 million in FY 2003 to an estimated $29.1 million in FY 2009; Source: 2008 Florida Tax Handbook

about 5,500 in November of 2008[35]. If left unchanged by the 2009 Legislature, a recent Florida Supreme Court ruling[36] is likely to lead to an increase back to the previous high level of claims.

[35] Source: Florida Office of the Judges of Compensation Claims

[36] October 23, 2008 ruling in *Murray v. Mariners Health/ACE USA*

This Florida TaxWatch *Special Report* was written by **Necati Aydin, Ph.D**., Senior Research Analyst/Economist, and **Ben Browning, MPA**, Research Analyst, under the supervision of **David Macpherson, Ph.D.**, Interim Senior Director of Research and Development and a member of Florida Council of Economic Advisors at Florida TaxWatch, and the Rod and Hope Brim Eminent Scholar Chair in Economics at Florida State University, with the direction of **Dominic M. Calabro, President and CEO**.

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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 30-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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