An Economic Impact Analysis of Eliminating Florida's Commercial Rent Tax

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A Project for The Florida Association of Realtors

Prepared by the Regional Economic Consulting Group

Clyde Diao, PhD
Jared Parker, MS

Executive Summary

The REC Group conducted an analysis to measure the impact of eliminating the commercial rent or lease tax. This tax rate has already been reduced several times, and it is expected to be reduced to 2% within the current state fiscal year. Eliminating this tax from the expected lower rate generates significant returns to the state economy. The analysis estimated the static effects of reduced public-sector revenues and the increase in private-sector spending. These direct static numbers were then used to model the dynamic and associated tax impacts on the state.

The study presents two different ways of analyzing timing complexities. The first approach uses a cohort concept for a one-year period, which eliminates timing effects and assesses the direct spending impact on economic ripple effects, regardless of when the new economic effects materialize. The second approach uses a five-year window to capture the overall economic effects of the policy change, considering that it takes three years to fully realize the effects of one year of tax savings and reinvestment.

The highlights of the findings are summarized below:

Summary of Impacts

Direct & Dynamic Impacts ($Millions)

	CASH IMPACTS		RECURRING IMPACTS	
	NET IMPACT 1ST YEAR COHORT	NET IMPACT FIVE YEAR TOTAL	OPERATIONS 1ST YEAR COHORT	OPERATIONS FIVE YEAR TOTAL
DIRECT IMPACTS				
LEVERAGED INVESTMENT	$4,087.8	$19,680.5	$0.0	$0.0
OPPORTUNITY COST	($976.8)	($4,702.6)	$0.0	$0.0
TOTAL NEW OPERATIONAL SPENDING	$0.0	$0.0	$339.3	$1,963.8
DYNAMIC IMPACTS				
NET JOBS (COUNT)	47,616	47,616	3,854	11,037
LABOR INCOME	$2,644.2	$6,288.0	$134.1	$776.2
VALUE-ADD (GDP)	$3,954.7	$9,375.6	$322.1	$1,864.2
ECONOMIC OUTPUT	$6,368.8	$15,345.0	$744.2	$4,307.8
TOTAL STATE & LOCAL TAX				
TOTAL COLLECTIONS	$193.8	$649.4	$24.1	$139.8

- Leveraged investment is a strategy that utilizes tax savings generated within the economy and leverages them for new development in Florida. The first-year cohort is expected to spend over $4 billion, which is significantly higher than the state's opportunity cost of $976.8 million. Over the course of five years, this approach is projected to bring in more than $19.7 billion for new property construction and operations throughout the state.
- It is expected that removing the Commercial Rent tax will lead to a significant increase in jobs and employment. The construction of new commercial and residential properties will create 47,616 jobs, and it is expected that 11,037 jobs will be created during the five years of operations and maintenance of these properties.
- Economic output represents the total value of gross spending on all goods and services across the supply chain and is a direct indicator of economic impact. Removing the Commercial Rent tax would grow the Florida economy by $19.7 billion over a five-year span. A single cohort would increase Florida’s total economy by $6.4 billion. The operations impact is equally significant, earning the state $4.3 billion over five years.
- Finally, the state will expect to offset some of the revenue loss from removing the Commercial Rent tax. The new economic activity will generate new tax revenues for State and Local governments. The initial loss of $976.8 million will be offset by $193.8 million

occurring from construction activity and another $24.1 million in collections from recurring operations and maintenance.

Florida's Commercial rent tax has far-reaching complications, especially when the State's population is growing at an unprecedented rate. The study shows the State will grow by $6.52 for every dollar of lost revenue when comparing the initial loss to the overall economic gain. When the new tax collections mitigate the initial state losses, the increase becomes $8.39 per dollar of lost revenue. Removing the tax accelerates investment in construction and development. Nearly one thousand people move to Florida every day; it is essential to remove this tax burden to allow for more investment in housing, retail, and development to support growth and keep Florida one of the top-performing economies in the world's largest economy.

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Introduction & Background

Florida's tax of 4.5% is imposed on rent or license fees charged for real property, except for payments for personal property such as trademarks and patents.[1] If a contract has both taxable and nontaxable payments, the tax applies only to the taxable portion.[2] There are several exemptions, including property used exclusively as dwelling units, agricultural property, property used at an airport, and property used as an integral part of the performance of qualified production services.[3]

Commercial leases in the United States are generally not taxed, except for a few exceptions. In Arizona, five of the fifteen counties and some towns and cities within the State impose a tax on commercial leases at varying local rates. In New York, only a part of the borough of Manhattan, south of the center line of 96th Street, is subject to tax on commercial property leases.

[1] Summarized from Section 212.031 F.S.
[2] Ibid.
[3] Ibid.

Current Law & Current Practice

Current Law Forecast of Commercial Rent

	23-24	24-25	25-26	26-27	27-28	28-29
VALUE ($MILLIONS)						
TAXABLE BASE	$41,635.8	$44,197.4	$45,138.6	$45,893.2	$46,967.5	$48,294.3
CURRENT LAW COLLECTIONS	$2,048.5	$976.8	$902.8	$917.9	$939.4	$965.9
PERCENTAGE CHANGE						
TAXABLE BASE	6.3%	6.2%	2.1%	1.7%	2.3%	2.8%
CURRENT LAW COLLECTIONS	−4.9%	−52.3%	−7.6%	1.7%	2.3%	2.8%

The Florida's commercial rent tax, or business rent tax, has undergone several changes since January 1, 2018. The tax rate was initially set at 6% but has been reduced over time. On January 1, 2018, the rate was lowered to 5.8%, then 5.7% on January 1, 2019, and 5.5% on January 1, 2020. The current rate is 4.5%, effective from December 1, 2023. The law includes a provision allowing a possible rate reduction to 2%. However, this is subject to the balance of the Unemployment Compensation Trust fund.

The Unemployment Compensation Trust (UCT) fund is receiving regular transfers, which will cease and be removed from the statute once the balance of the UCT fund reaches $4,071,519,600 on the last day of any month. The new rate will come into effect on the first day of the second month following this change. As per the Unemployment Compensation Trust Fund Forecast, this modification is expected to occur in March 2024 and will reduce the tax rate paid by affected businesses commencing June 1, 2024.[4]

The Florida state government analyzed the decrease in the tax rate from 5.5% to 4.5% during the Legislative session 2023.[5] This analysis measures the tax base of commercial rent taxpayers.[6] The conference assumes that the tax rate changes would show up rapidly in the state revenue stream with a lag of only one week to the change.[7] According to the 2023 legislative analysis, the UCT fund balance trigger is expected to be reached in May 2024, as predicted by the UCT forecast.

The Florida Realtors Association has approached the Regional Economic Consulting Group (REC Group) to analyze the potential impact of eliminating the Commercial Rent tax. The study aims to measure the effect of removing the tax from a fiscal and economic standpoint. The REC Group will assess the direct impact on state revenues and on jobs, labor income, overall GDP,

[4] Unemployment Compensation Trust Fund Forecast: Unemployment Compensation Trust Fund Analysis (state.fl.us)

[5] Business Rent Tax Rate Reduction HB 7063 page665-666.pdf (state.fl.us)

[6] Ibid.

[7] Ibid.

and economic output. The study aims to provide a comprehensive view of the economic burden commercial rent imposes on the State's economy.

Regional Economic Consulting Group Background

The Regional Economic Consulting Group is a research group measuring the economic impacts of public and private sector projects. They build impact studies and provide statistical validation to public policy, economic development strategies, and investment. The Group covers various fields, spanning economic outlooks to demographic and labor market studies, and uses the latest econometric modeling and methodologies techniques.

The Group uses various analytical tools: REMI modeling, IMPLAN, cost-benefit analysis, general input-output analysis, and econometric modeling. Impacts can come from jobs created or lost and fiscal impacts examining dollars gained or lost for projects and initiatives. The Group has experience producing studies and presenting them publicly.

The Group's economists bring a unique perspective from the Florida Government's economic units and have firsthand knowledge of the Florida Economy. That competitive advantage affords them an intimate familiarity with Florida-specific economic mechanisms. The Group brings that ability to the private sector to better position impacts and promote initiatives for the future.

Objectives

This analysis aims to determine the impact of completely removing the tax on commercial rent in Florida. To achieve this, a direct static analysis will be conducted to measure the change in tax receipts and a dynamic analysis to evaluate how this change will affect both the private and public sectors as well as the entire Florida economy. Furthermore, the analysis will examine the incremental effects of the change in taxation.

The first part of the analysis, known as the direct static analysis, will examine the tax revenues received by the State and how the private sector intends to use additional spending if the tax is repealed. This section will delve into the amount of revenue the State stands to lose, the portion of that revenue that will remain in Florida, the amount that will be reinvested, the costs associated with managing any newly constructed properties, and the timeline for all new expenditures.

The second part of the analysis is known as dynamic analysis. This phase of the study considers the reductions in public spending and increases in private spending and calculates their overall net impact on the economy. The analysis measures the impact of job creation, labor income,

Gross Domestic Product (GDP), and total economic output. Finally, any impact on taxes due to the shift in spending patterns is accounted for in the overall economic impact.

Assumptions and Methodology

Assumptions

The table below displays the assumptions for each year, including the growth rates for commercial property and the distribution percentages for construction, which are linked to the Florida Economic Forecast of the Regional Economic Group. The impacts and assumptions will take effect in the state fiscal year 2024-25, the first year when such changes can occur.

Assumptions

	24-25	25-26	26-27	27-28	28-29
COMMERCIAL RENT ASSUMPTIONS					
COMMERCIAL PROPERTY GROWTH	6.2%	6.2%	2.1%	1.7%	2.3%
MARKET CONCENTRATION RATE	83.7%	83.7%	83.7%	83.7%	83.7%
INVESTMENT ASSUMPTIONS					
LOAN TO COST	80.0%	80.0%	80.0%	80.0%	80.0%
INVESTMENT RATE IN FLORIDA	100.0%	100.0%	100.0%	100.0%	100.0%
CAPITALIZATION RATE	8.3%	8.3%	8.3%	8.3%	8.3%
CONSTRUCTION DISTRIBUTION ASSUMPTIONS					
RESIDENTIAL CONSTRUCTION	70.4%	70.2%	69.9%	69.8%	69.9%
NON-RESIDENTIAL CONSTRUCTION	29.6%	29.8%	30.1%	30.2%	30.1%

- The commercial tax base should grow consistently with overall construction expenditures.[8]
- The largest taxpayers will have enough savings to reinvest their tax savings into expanding their real estate portfolio.[9]
- The Relative market concentration measured for State Fiscal Year 2022-23 will remain stable throughout the estimation period.
- Businesses will leverage the new cash flow to their best advantage.
- Market research indicates a loan-to-cost ratio of 80% is consistent with overall lending standards.[10]
- The business's investment in additional property will be split consistently with the overall construction expectations between residential and non-residential construction.[11]
- 100% of the leveraged capital will be spent on the expansion of property portfolios.
- The national median capitalization rates for Real Estate Investment Trusts (REITs) reasonably indicate the operational expenditures for new properties.[12]
- There will be a three-year delay between the rate change and the completion of the new construction projects.[13]

[8] Regional Economic Consulting Group – Florida State Level Forecast of Critical Economic Components
[9] REC Group's assumption is based on Summary Statistics from the Florida Department of Revenue.
[10] Survey of Largest Bank's Loan Policies.
[11] Regional Economic Consulting Group's Florida Economic Forecast
[12] Median implied cap rate for US REITs expands again in Q3 2023 | S&P Global Market Intelligence (spglobal.com)
[13] Regional Economic Consulting Group – Rent Control in the State of Maryland Study

Methodology

The methodology uses a two-pronged approach: static and dynamic analyses. The static phase measures the tax revenue currently collected on commercial rent under the current law and administration. Additionally, this phase examines the actions that businesses are likely to take if they are no longer required to pay taxes on commercial rentals. It looks at what portion of their savings would be reinvested and leveraged, how reinvestment will affect construction, operation and maintenance and to what extent.

The dynamic phase of this economic analysis takes the amounts from the static phase. It divides them into different economic sectors to simulate the ripple effects of these changes on the economy as a whole. In this phase, the estimated changes in direct spending are injected, which produces a series of direct, indirect, and induced effects. These effects measure the economic ripples spreading across all industries, allowing for the calculation of the total number of jobs created, labor income produced, GDP, economic output, and tax revenue impacts. The study measures the economic impacts of the reduction in state revenues and the increased funds available to the private sector. The study uses IMPLAN software, which is widely accepted in the field. Take note that GDP (Gross Domestic Product) measures the sum of the net economic output of goods and services within a nation, state, or a county produced within a specific period of time, excluding intermediate products. Total economic output measures the GDP including intermediate products.

Static Impact

Static analysis aims to determine the amount of money the government would receive based on the current legislation and policies and how the private sector would utilize these funds directly. It is achieved by identifying the applicable tax base. The analysis from the 2023 Legislative Session provides the tax base for 2023, which is the most reliable starting point to estimate future collections under the current legal provisions, including the anticipated additional rate reduction.

The tax base number is grown to state fiscal year 2028-29 to estimate the first-year static impact plus four additional years. This tax base is most directly tied to changes in real property and, therefore, should be grown by the overall construction expenditures growth rates. The initial drop seen in current law tax collections growth rates for state fiscal year 2023-24 shows the partial effect of the impending rate change. The first full year of the new 2% rate is realized in the subsequent fiscal year. The base continues to grow steadily even as the collections fall by over 50%.

The estimate of tax revenues shows how much additional investment could be possible for the private sector. Not all commercial rent taxpayers are of a substantial enough size that their tax

savings will be meaningful for their overall economic condition. Statewide tax base by quintile information was used to determine the relative size within each Group of taxpayers.

The first quintile of taxpayers, representing twenty percent of the total commercial rent taxpayers, with positive tax liability, remit 83.7% of all commercial rent taxes. The average tax savings within this Group at the lower 2% rate would be $61,031 per business. The tax base per business in this first quintile is over $3 million, and the second quintile has an average tax base of under $350,000.

It has been observed that the first quintile of businesses differs significantly in size compared to the other four quintiles. This Group of companies is best positioned to use additional cash flow to expand their property portfolios effectively. The assumption is that 83.7% of the tax savings will be reinvested. This reinvestment will be leveraged to maximize the investment's value, and the leveraged amounts are listed in Table 1 below.

Table 1: Reducing Commercial Rent Tax Rate to Zero

Direct Impact ($Millions)

	24-25	25-26	26-27	27-28	28-29	5 YEAR TOTAL
BASELINE FORECAST						
TAX SAVINGS	$976.8	$902.8	$917.9	$939.4	$965.9	$4,702.6
REINVESTMENT	$817.6	$755.6	$768.3	$786.2	$808.4	$3,936.1
DIRECT IMPACT						
LEVERAGED INVESTMENT	$4,087.8	$3,778.1	$3,841.3	$3,931.2	$4,042.2	$19,680.5
OPPORTUNITY COST	($976.8)	($902.8)	($917.9)	($939.4)	($965.9)	($4,702.6)

Private sector investments are distributed between the primary residential and non-residential construction sectors based on the distribution percentages in the assumption table. The capitalization rate is used to calculate the amount of money that will be spent on operating these new properties once they are complete. Operational spending represents the necessary return on capital for the investment. The assumptions table shows the median capitalization rate for all real estate investment trusts. The operational spending is also divided into residential and non-residential operational spending sectors using the distribution percentages in the assumptions table.

The term "opportunity cost" refers to the loss of government revenue that occurs when private sector gains are made. It's important to note the economic effects of any private sector gains,

correspond with a loss in government revenue. Government spending stimulates the economy, so when the Legislature allocates tax revenue and spends it, it can drive economic activity. However, when a tax is removed, and government expenditures decrease, it can negatively affect the economy, referred to as the "opportunity cost of policy" in this study. The aim is to net out the government loss or “opportunity cost” from the private sector economic impacts as savings are being leveraged and reinvested to make the analysis more relevant.

Dynamic Impact

Dynamic impacts are the change in one variable leading to the change in others. The economic input-output model shows the interdependencies between different sectors of a national economy or different regional economies. The model depicts inter-industry relationships within an economy, leading to how the output from one industrial sector may become an input to another industrial sector. A change in one industry could affect other industries either directly, indirectly, or as an induced effect. Direct, indirect, and induced effects are the cornerstones of dynamic economic impact estimation. The sum of these effects represents the total economic effects.

An example of direct impact is individuals buying a good; the direct cost is $5. The immediate effect would be $5. The indirect stage encompasses the supply chain. In the $5 item example, the indirect costs would be costs associated with acquiring intermediate products to produce the item and making it available for sale. The third and final stage of a dynamic impact is the induced impact. The tertiary effects are that after our $5 item sells, the proceeds, salaries, and wages become additional spending in the economy as a part of consumption. Together, these three areas tie a multistage impact that pushes beyond a direct static analysis to give a better-rounded view of how expenditures impact the economy.

The process of dynamic impact involves taking two static numbers highlighted in blue in Table 1 and allocating them into five IMPLAN sectors based on their respective industries. The five IMPLAN sectors represent non-residential construction expenditures, residential construction expenditures, non-residential property operations, residential property operations, and government spending. It's important to note that the construction multipliers differ from those for the operations and maintenance of completed properties. The lost tax revenues are considered the opportunity cost in the dynamic analysis and assigned to the government sector within IMPLAN, using government expenditure multipliers. The decrease in public sector spending limits the increase in spending in the private sector.

All sectors provide information on the change in jobs, labor income, value added (GDP), and overall output. The net impacts are calculated by reducing the private sector increases with the decreases in the public sector.

Sources of Data

- S&P Global's Real Estate Investment Trust Report
- Regional Economic Consulting Group Florida Forecast
- 2023 Legislative Session; Revenue Estimating Conference Analysis of HB7063 Section 22

Results, Findings, and Analysis

Static Impacts- Direct Expenditures

If the tax were repealed in the state fiscal year 2024-25, the private sector would take approximately three years to complete any new construction project as shown in Table 2. The timing is a result of planning and the time to construct. The spending will be spread across the three years, but due to the uncertainty of the timing, the total increase in construction spending is realized in the third year for this analysis. Operational impacts are linked to specific properties and start when each Group of properties becomes available on the market. As a result, operational spending accumulates each year as new construction projects are completed, and the new operations spending is added to the prior year's spending.

To properly assess the financial impact of a government initiative, it's essential to consider the timing of both costs and benefits. Specifically, it accounts for the possibility of costs incurred before benefits are seen. The analysis found that the government impact would take place during the state fiscal year of 2024-25. It creates a timing discrepancy when comparing costs in the originating period with benefits in the originating period.

To illustrate the timing mismatch, Table 2 shows that the first few years of losses are not offset until the properties constructed using the leveraged capital are complete in the third year. The study refers to this time-corrected series of static impacts as the highlighted impacts in Table 2. This data will populate the dynamic model inputs for each year. To avoid complications, the study aggregates the direct impacts over 5 years to make the analysis simpler and easier to comprehend.

Table 2: Reinvestment Impact

Direct Impacts ($Millions)

	24-25	25-26	26-27	27-28	28-29	5 YEAR TOTAL
CONSTRUCTION IMPACT						
RESIDENTIAL CONSTRUCTION	$0.0	$0.0	$2,876.3	$2,651.7	$2,685.3	$8,213.3
NON-RESIDENTIAL CONSTRUCTION	$0.0	$0.0	$1,211.4	$1,126.4	$1,156.0	$3,493.8
OPERATIONS IMPACT						
NEW RESIDENTIAL SPENDING	$0.0	$0.0	$238.7	$458.8	$681.7	$1,379.3
NEW NON-RESIDENTIAL SPENDING	$0.0	$0.0	$100.5	$194.0	$290.0	$584.6
TOTAL NEW OPERATIONAL SPENDING	$0.0	$0.0	$339.3	$652.9	$971.7	$1,963.8
OPPORTUNITY COST IMPACT						
OPPORTUNITY COST	($976.8)	($902.8)	($917.9)	($939.4)	($965.9)	($4,702.6)

Between fiscal years 2024-25 and 2026-27, construction projects worth $2.9 billion and $1.2 billion will be completed for residential and non-residential purposes, respectively. As a result, the newly developed properties, including condominiums, hotels, apartments, and commercial and retail properties, will begin their spending activities and operations. However, this spending activity will occur over the years following the construction period.

During the period 2024-25, the government will incur a revenue loss of $976.8 million, which can be viewed as an opportunity cost. Despite this loss, over $4 billion in 2026-27 will be reinvested in Florida's economy by the private sector, generating an annual recurring spending of $340 million within the State.

Dynamic Impacts

There are two timeframes used to analyze the dynamic impact. The first timeframe compares the effects of the initial-year cohort of static impacts. It compares the tax revenues lost to the State in the fiscal year 2024-25 with the change in spending from the private sector in the fiscal year 2026-27, as if these changes happened simultaneously.

Table 3 shows the first-year cohort impacts of direct and combined indirect and induced effects for the number of jobs, the labor income for those jobs, the value-add, and the total overall change in economic output. The first four columns, organized under the Cash Impacts heading, compare the lost revenues to the State and the gains to the private sector. The first two columns deal with private construction expenditures. The opportunity cost column contains dynamic

impacts of the reduction in revenues to the government. These first three columns are combined to show the net impact of the change in tax revenues. Under the Recurring Impacts heading, the operations values show the economic stimulus associated with the new construction's operations going forward.

Table 3: First Year Cohort Impacts

Dynamic Impacts ($Millions)

	CASH IMPACTS				RECURRING IMPACTS
	RESIDENTIAL	NON-RESIDENTIAL	OPPORTUNITY COST	NET IMPACTS	OPERATIONS
JOBS (COUNT)					
DIRECT	27,284	10,877	−6,055	32,107	1,741
INDIRECT & INDUCED	12,960	6,284	−3,734	15,509	2,113
TOTAL	40,244	17,161	−9,789	47,616	3,854
LABOR INCOME					
DIRECT	$1,573.3	$621.8	($449.6)	$1,745.5	$24.8
INDIRECT & INDUCED	$733.5	$374.4	($209.3)	$898.7	$109.3
TOTAL	$2,306.8	$996.2	($658.9)	$2,644.2	$134.1
VALUE-ADD (GDP)					
DIRECT	$2,232.9	$638.2	($610.6)	$2,260.6	$121.5
INDIRECT & INDUCED	$1,389.0	$692.5	($387.4)	$1,694.1	$200.6
TOTAL	$3,621.9	$1,330.7	($997.9)	$3,954.7	$322.1
ECONOMIC OUTPUT					
DIRECT	$2,876.3	$1,211.4	($786.5)	$3,301.3	$339.3
INDIRECT & INDUCED	$2,478.5	$1,289.3	($700.2)	$3,067.6	$405.0
TOTAL	$5,354.8	$2,500.7	($1,486.7)	$6,368.8	$744.2

Suppose the commercial rent tax rate is reduced to zero for a year. In that case, the resulting economic activity is expected to create 47,616 jobs, generate more than $2.6 billion in labor income, add $3.9 billion in value-added GDP, and have an overall economic impact of $6.4 billion. This spending would also create new revenue-generating properties, leading to stable employment of nearly four thousand jobs, $134 million in new paychecks, a $322 million expansion in the GDP, and an overall impact on the economy of $744.2 million annually.

Table 4 compares the economic effects of reduced revenues over five years and the impacts of private sector spending on three years of completed construction. While Table 3 examines the

impacts of a single year of tax reduction, it provides the impacts over time without considering the timing. On the other hand, Table 4 considers the timing, mechanics of the rate reduction, construction activity, and ensuing operations and maintenance. This time frame provides a more realistic estimate of the possible economic impact of this change over the next five years. Table 3 represents only one cohort's activity over time, whereas Table 4 includes multiple cohorts' activity within a five-year timespan.

Table 4: Total Five Year Impacts

Dynamic Impacts ($Millions)

	RESIDENTIAL	NON-RESIDENTIAL	OPPORTUNITY COST	NET IMPACTS	OPERATIONS
JOBS (COUNT)					
DIRECT	27,284	10,877	−6,055	32,107	4,985
INDIRECT & INDUCED	12,960	6,284	−3,734	15,509	6,052
TOTAL	40,244	17,161	−9,789	47,616	11,037
LABOR INCOME					
DIRECT	$4,492.6	$1,793.3	($2,164.7)	$4,121.2	$143.8
INDIRECT & INDUCED	$2,094.5	$1,079.9	($1,007.5)	$2,166.8	$632.4
TOTAL	$6,587.1	$2,873.2	($3,172.3)	$6,288.0	$776.2
VALUE-ADD (GDP)					
DIRECT	$6,376.0	$1,840.8	($2,939.6)	$5,277.1	$703.1
INDIRECT & INDUCED	$3,966.3	$1,997.2	($1,865.0)	$4,098.5	$1,161.1
TOTAL	$10,342.2	$3,837.9	($4,804.6)	$9,375.6	$1,864.2
ECONOMIC OUTPUT					
DIRECT	$8,213.3	$3,493.8	($3,786.6)	$7,920.5	$1,963.8
INDIRECT & INDUCED	$7,077.2	$3,718.4	($3,371.1)	$7,424.5	$2,344.0
TOTAL	$15,290.5	$7,212.2	($7,157.7)	$15,345.0	$4,307.8

The job numbers in the first four columns of Table 4 are the same as those in Table 3. These numbers represent a stream of employment over time tied to the increase in cash flow rather than additional jobs per year. The number of operations jobs is higher in Table 4 than in Table 3 because new properties are added to the stock of properties each year.

As a result of legislative action removing a Commercial Rent tax over five years, the economic impacts are significant. Again, an additional nearly fifty thousand jobs net above lost jobs tied to

the public sector. Over five years more than $6.3 billion in paychecks are provided to economic activity involving construction. The State's Gross Domestic Product would expand by $9.4 billion, and total economic activity would amount to over $15.3 billion.

To put the values in a better perspective, every dollar reduced in Commercial Rent tax would create $6.52 of new economic activity. For every dollar the State collects in commercial rent, the opposite is true; Florida is worth $6.52 less.

Tax Impacts

The last piece of the dynamic analysis looks at the change in tax revenues at the state and local level that are a function of private or public spending. It may seem unintuitive, but from the overall economy's viewpoint, there are taxes paid by workers and businesses that receive payments from the public sector. These tax revenues are compared to the tax revenues generated by the leveraged investments in the private sector in both the first-year cohort and 5-year timeframes.

The taxes are broken down into state and local government levels. The local government tax jurisdictions include counties, municipalities, and special districts. The “Net Impact” columns show the combination of the increase in private sector tax revenues on construction activities and the reduction of tax revenues associated with public sector spending. The “Operations” values show what taxes would be generated because of operations and maintenance of the newly constructed properties.

Table 5: Tax Impacts

Dynamic Impacts ($Millions)

	NET IMPACT 1ST YEAR COHORT	NET IMPACT FIVE YEAR TOTAL	OPERATIONS 1ST YEAR COHORT	OPERATIONS FIVE YEAR TOTAL
LOCAL GOVERNMENT TAX				
DIRECT	$12.3	$50.3	$4.2	$24.3
INDIRECT & INDUCED	$90.3	$293.5	$8.6	$49.9
TOTAL	$102.6	$343.8	$12.8	$74.2
STATE GOVERNMENT TAX				
DIRECT	$7.8	$34.6	$3.5	$20.2
INDIRECT & INDUCED	$83.4	$271.0	$7.8	$45.4
TOTAL	$91.2	$305.6	$11.3	$65.6
TOTAL STATE & LOCAL TAX				
TOTAL	$193.8	$649.4	$24.1	$139.8

The combination of first-year cohorts from construction and operations can offset $217.9 million in the top-line loss of state revenues. Out of this amount, $193.8 million comes from construction, whereas $24.1 million comes from operations. This policy would allow the State to receive an increase in collections, offsetting their commercial rent reduction of $91.2 for each cohort of activity and over $300 million over five years. Additionally, the State can expect each cohort to return from operations an additional $11.3 million annually and $65.6 million over the first five years of this policy's going into effect.

With this policy, local governments can also see a revenue boost. For a single cohort, new collections from construction would amount to $102.6 million; over five years, the numbers would drive well over $340 million in collections. Like the State, local governments can expect further collections of $12.8 million per cohort for recurring operations and $74.2 million over the first five years of the policy's implementation.

Conclusion

The REC Group's analysis shows the economic impact of eliminating the tax on commercial rent or lease. This tax rate has already been reduced several times and is expected to be further reduced to 2% within the current state fiscal year. Eliminating this tax, even from the expected lower rate, would result in significant returns to the state economy. While the full elimination presents a reduction to the State's coffers, the full economic benefits to Florida's economy more than exceeds the loss to the government.

The study estimated the static effects of reduced public-sector revenues and increased private-sector spending. The study uses these static numbers to model the dynamic, including indirect and induced impacts and associated tax impacts on the State.

Table 6: Summary of Impacts

Direct & Dynamic Impacts ($Millions)

	CASH IMPACTS		RECURRING IMPACTS	
	NET IMPACT 1ST YEAR COHORT	NET IMPACT FIVE YEAR TOTAL	OPERATIONS 1ST YEAR COHORT	OPERATIONS FIVE YEAR TOTAL
DIRECT IMPACTS				
LEVERAGED INVESTMENT	$4,087.8	$19,680.5	$0.0	$0.0
OPPORTUNITY COST	($976.8)	($4,702.6)	$0.0	$0.0
TOTAL NEW OPERATIONAL SPENDING	$0.0	$0.0	$339.3	$1,963.8
DYNAMIC IMPACTS				
NET JOBS (COUNT)	47,616	47,616	3,854	11,037
LABOR INCOME	$2,644.2	$6,288.0	$134.1	$776.2
VALUE-ADD (GDP)	$3,954.7	$9,375.6	$322.1	$1,864.2
ECONOMIC OUTPUT	$6,368.8	$15,345.0	$744.2	$4,307.8
TOTAL STATE & LOCAL TAX				
TOTAL COLLECTIONS	$193.8	$649.4	$24.1	$139.8

In the first year, the State faces an immediate loss of $976.8 million in tax revenue, which could be further reduced to $758.9 million due to tax impacts. However, this loss should be compared to a private sector investment worth over $4.1 billion. However, over a span of 5 -years, total private investments amount to $19.7 billion as opposed to the State's $4.7 billion. Through investments, the findings show that the private sector generates new spending and creates jobs. Specifically, the investments lead to the creation of 47,616 new jobs in construction and 11,037

jobs in facilities operations and management. Additionally, the State's overall economic output will increase by $6.4 billion.

The State will grow by $6.52 for every dollar of lost revenue when comparing the initial loss to the overall economic gain. Moreover, when the new tax collections mitigate the initial state losses, the return on investment becomes $8.4 per dollar of lost revenue.

Government spending is generally less economically efficient than private-sector spending. It is evident when comparing the direct impact line of the total economic output for government spending in Table 3. The top-line loss in state revenue shows up as $976.8 million, but the change in the direct portion of dynamic impact’s economic output is $786.5 million. The private sector reinvestment amount is $4.1 billion, the same as the direct impact on the dynamic model’s total economic output.

The commercial rent tax is not commonly levied across the United States, and it puts Florida in a rare company with only a few states like New York. Even New York recognizes its disadvantages and has limited its implementation. The reason is clear: the tax weighs down real estate investment and construction. For a state like Florida, the commercial rent tax has far-reaching complications, especially when the State's population is growing at an unprecedented rate. Every dollar spent on commercial rent is $6.52 less in economic activity. Nearly one thousand people move to Florida every day; it is essential to remove this tax burden to allow for more investment in housing, retail, and development to support growth and keep Florida one of the top-performing economies in the world's largest economy.

Appendix – Biographies

Dr. Clyde L. Diao

Managing Partner & Economist

Dr. Clyde Diao is an economist with 34 years of experience. His expertise includes forecasting and analyzing tax issues; managing, developing, and conducting economic research projects on development and environmental issues; econometric and regional economic analysis; developing large econometric models for the State of Florida.

Dr. Diao served as the Deputy Policy Coordinator with the Florida Executive Office of the Governor. His primary responsibility included analyzing the US Economy and forecasting Florida's economy and demographics as the basis for Florida's state revenues. He developed the State of Florida's econometric models that forecast and analyze Florida's employment, income, housing, construction, tourism, and transportation.

As the Deputy Policy Coordinator, he also worked on various tax policy issues relating to corporate income tax, documentary stamps tax, intangibles tax, communication services, gross receipts taxes, highway safety taxes, tobacco taxes, and estate tax, among others. Using sophisticated regional modeling techniques, Dr. Diao conducted analyses to determine the economic impacts of various state policies — some of which are highly controversial issues that would require Dr. Diao’s expert advice for the Executive Office of the Governor.

In 2010, Dr. Diao was appointed by Gov. Charlie Crist to be the Census Liaison for the State. He was instrumental in developing the strategy for the 2010 Census, which saw a sharp increase in participation from 65% to 74% and added two more congressional seats for Florida. Florida became a model to the nation in the 2010 Census.

He is also the former Chief Economist at the Florida Department of Environmental Protection, where he was involved in various aspects of environmental regulation policy. He has appeared in court as an expert witness for the State of Florida.

Dr. Diao has been a vocal proponent of Asian American issues outside the office. He founded the Asian Coalition of Tallahassee and served as Chairman for ten years. ACT is the umbrella organization that aims to unite Asian Americans in the region. He was also the leader of the Big Bend Filipino American Association for ten years, the BBFAA's longest-serving president. Dr. Diao has fought for issues that impact the Asian American community, such as eliminating the Alien Land Law in Florida's constitution and the State's declaration of the Asian American Heritage Month.

Dr. Diao is from Cagayan de Oro City, Philippines. He graduated with honors from Xavier University/Ateneo de Cagayan, a Jesuit institution, and received his MS and PhD in Economics at Florida State University as a World Bank scholar.

Jared Parker

Managing Partner & Economist

Jared Parker is a founding partner and economic consultant at the Regional Economic Consulting Group. He comes from an economics career within the State of Florida's Government and maintains a wide range of experience in state policy impacts.

Before founding the Regional Economic Consulting Group, Jared Parker worked in the Florida Legislative Office of Economic and Demographic Research (EDR) and the Florida Department of Revenue Tax Research Unit. He was responsible for projecting revenues and determining the fiscal impacts of pending bills to the Legislatures' Revenue Estimating Panel. His policy experience includes sales tax exemptions, corporate income, insurance premium taxes and credits, Communication Services, Documentary Stamps, Intangibles taxes, and electric and gas utilities.

Jared Parker was involved with many long-term impact projects for general state policy at EDR. He participated in the State's analysis and committee hearings featuring the Patient Protection and Affordable Care Act and the later attempt to expand Medicaid under Florida's Health Insurance Exchange. He was involved with the BP Oil Spill impacts of 2010, hurricane disaster impacts, and numerous Constitutional Amendments.

Jared Parker received his MS in Applied Economics from Florida State and has a broad range of experience on various topics about local, State, and regional economies. With many years of hands-on experience in measuring the state economy for the Legislature, he has been a part of the revenue estimating process that both the Governor and the Legislature depend on to create their budgets for the past decade.

He brings to the REC Group invaluable experience in producing in-depth outlooks and impacts and can deliver results clearly and concisely.