

Greetings from

FLORIDA

"A State of Change"



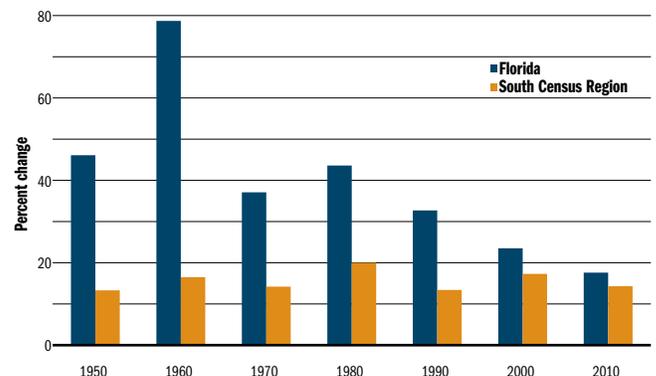
For decades, Florida’s prosperity was based on a simple premise: growth. Growth in the population led to a booming housing market, job market, revenue base, and the advantages they afforded. In the wake of a punishing housing slump and slowing population growth, how does Florida begin the next chapter of its sun-kissed existence?

Florida, a state perhaps known as much for its booms and busts as its sandy beaches, has enjoyed at least one relative constant since the 1940s—strong population growth. Lured by the state’s mild climate, miles of coastline, relatively low cost of living, and lack of a personal income tax, retirees and job seekers alike formed a seemingly endless stream of new residents. “For decades, it was a one-way road of in-migration,” said Sean Snaith, director of the University of Central Florida’s (UCF) Institute for Economic Competitiveness. “People came to the state and generally stayed.” In the decades following World War II, Florida’s population growth consistently outpaced the rest of the South (see chart 1), helping to make it the fourth most populous U.S. state by the end of the 20th century.

The state’s healthy population growth also powered much of its economic growth. Indeed, the two are closely intertwined, thanks largely to the population-driven construction and real estate sectors. “Population growth packs a one-two punch for the economy,” Snaith said. To start, all those new residents needed a place to live. The demand for homes fueled the state’s construction industry, a key element of Florida’s so-called “economic triad,” which also includes agriculture and tourism. As a result, the state’s economy came to rely more heavily on construction-driven growth than did many other states. To illustrate, the most recent data available from the U.S. Department of Commerce show that in 2009, construction accounted for just over 5 percent of Florida’s economy, compared to 3.8 percent for the nation.

Florida’s tax structure is also predicated on strong growth, with state and local governments depending heavily on new residents to fill their coffers as new Floridians fund roads and schools with the property and sales taxes they pay. These tax revenues are especially important in Florida, which is one of seven states without personal income taxes. Indeed, the state’s

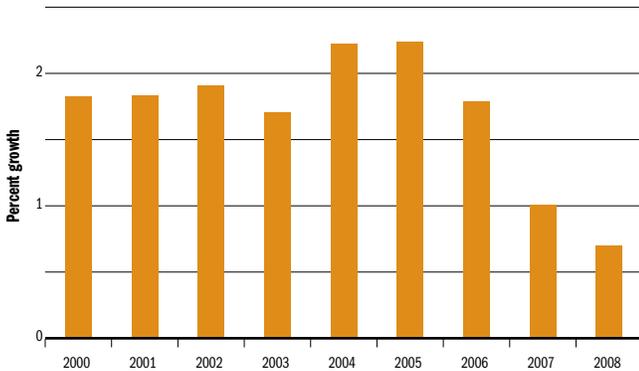
Chart 1
Population Growth by Decade



Note: Years indicate the final year of the preceding decade. “South Census Region” data include Florida.
Source: U.S. Census Bureau

Chart 2

Florida's Annual Population Growth Rates



Source: U.S. Census Bureau

sales tax makes up three-quarters of general revenue in the state budget, according to the Florida Center for Fiscal and Economic Policy. Other population-linked taxes, such as real estate transactions, are also key funding sources for state and local governments.

Fewer new Floridians

Following decades of impressive gains, Florida's population growth has slowed dramatically in recent years. After increasing 33 percent in the 1980s and 24 percent in the 1990s, Florida's population grew only 18 percent in the past decade, according to the U.S. Census Bureau. While many other states might envy that figure, the seemingly smooth pace of growth masks more significant swings experienced on a year-to-year basis (see chart 2). Indeed, around the peak of the housing bubble from 2004 to 2006, the state gained well over 300,000 new residents a year, according to estimates from the University of Florida's Bureau of Economic and Business Research (BEBR). However, in 2007 and 2008, following the housing crash and the ensuing recession, the state's population growth grew by fewer than 200,000 in each year. The BEBR initially estimated that Florida's population fell by more than 58,000 from 2008 to 2009 in what would have been the first year of decline in more than 60 years. Recent revisions to those estimates, however, suggest that the state actually gained about 73,000 residents during that period, which is still the smallest increase since the 1940s and pales in comparison to the average yearly population growth of about 280,000 seen during the previous decade.

Given Florida's reliance on new residents for economic growth and tax revenues, it is no surprise that the drastic slowdown in its population growth has prompted Florida's leaders, economic developers, and businesses to rethink its economic development strategy.

Most of the blame for the state's sluggish population growth lies squarely with the housing crisis and recent recession. Retirees have long been one of the most significant groups of new residents in Florida, but many of them are either delaying retirement or are waiting out the housing bust before moving to warmer climes. Meanwhile, another key source of Florida's population growth—job-seekers in their 20s, 30s, and 40s—are not eager to move to a state with an unemployment rate near 11 percent, one of the highest rates in the nation.

Modernizing the recipe for success

Florida's flagging population growth in recent years sparked dire predictions of the state's impending implosion, as in the 2007 *Wall Street Journal* article titled, "Is Florida Over?" and *Time* magazine's July 2008 cover, "Is Florida the Sunset State?" Reports of Florida's demise might have been premature, but the slowdown nonetheless prompted state leaders and economic developers to think more strategically about the state's economic growth. "In the past, all we had to do was sit back and wait for people to come," said UCF's Snaith. "Now we have to be more strategic. It will take a concerted effort from the state and different regions to look beyond population growth and tourism for economic growth," he added.

Don Kirkman, president of Florida's Great Northwest, a marketing organization for the 16 counties that make up the northwestern region of the state, agrees. "Florida had been content to let growth support its economy," he said, "but that premise was unsustainable." As the state looks beyond organic, population-driven growth, he says that it must draw more high-tech and advanced manufacturing companies, even though growth in many of these sectors has bypassed the state in the past. The reason, he says, is because Florida "has not been perceived as a state that aggressively supported manufacturing companies." However, that perception may be changing now as northwest Florida, similar to other regions of the state, aggressively markets itself as a prime destination for innovative, high-tech industries. The region is home to seven military installations and, as such, is aggressively working to build an aerospace and defense industry cluster focused on avionics (the electronics systems used on aircraft, artificial satellites, and spacecraft), unmanned systems, and other key industries. Other targeted clusters include transportation and logistics (the region hosts two deepwater ports), health sciences, and renewable energy.

Priming the high-tech pump

Across the state, government leaders and economic developers are actively pursuing those and other high-tech industries, an effort that requires Florida to compete on more than its mild climate, miles of coastline, and relatively low cost of living. The new strategy appears to be yielding modest progress, especially in the state's emerging biotech and life sciences industry, which



includes at least eight research institutions throughout the state. A well-known example is Orlando's Lake Nona Science and Technology Park, more commonly known as Medical City. In just over three years, the complex has made a mark on Florida's economy. Anchored by UCF's new college of medicine and health sciences, the complex also houses the East Coast campus of the Sanford-Burnham Medical Research Institute, M.D. Anderson Orlando's Cancer Research Institute, and a University of Florida research facility, as well as new Veterans Administration and children's hospitals.

"Medical City has been an explosive source of growth," said UCF's Snaith, who pointed to successful models such as Silicon Valley in California and North Carolina's Research Triangle Park. According to Snaith, Medical City could one day be the state's "breadbasket for growth." Indeed, a 2008 study by research firm Arduin, Laffer & Moore Econometrics supports his assessment. The study estimates that Medical City could create more than 30,000 jobs and have an economic impact of \$7.6 billion by 2018. During that time, the medical school and neighboring institutions could generate more than \$13 for every one dollar spent on their development, in addition to providing as much as \$2.8 billion in wages and nearly \$460 million in tax revenues, said the study.

Florida has successfully recruited other biotech and life science companies to other parts of the state, including the Scripps Research facility in Jupiter, Fla., which is expected to create 6,500 new jobs over the next 15 years and could help position the state as a leader in biomedical research. Scripps Florida is joined by the Max Planck Society, a biomedical research company, the Torrey Pines Institute for Molecular Studies, and the Portland, Ore.-based Gene Therapy Institute.

The state's burgeoning life sciences industry recently garnered praise in an April 2011 Wells Fargo report, *Employment Dynamics and State Competitiveness*, that ranked states by regional competitiveness. That report asserted that "the influx of new medical research facilities will help reinvigorate growth in Florida, helping to diversify the state's economy." Another study, this one by independent research company Battelle, found that biotech employment in Florida

grew 18 percent from 2001 to 2008, compared to just 7 percent for the state's total private sector jobs. Further, jobs in Florida's biotech sector bring in an average pay of \$55,264 a year, compared to the average private sector pay across all industries of \$39,596, the report said.

Florida also is gaining prominence on the national biotech scene. In 2009, it ranked fourth in the nation in the number of clinical trials held, sixth in the total number of biotech jobs in 2008, and sixth in biotech college degrees awarded the same year. However, it may be too early to measure returns on the state's investment in this and other target industries, says a December 2010 report by the Office of Program Policy Analysis and Government Accountability, titled *The Florida Growth Fund Added Investments in 2010, but It Is Still Too Early to Assess Total Economic Impact*, in part because many of the investments are made in relatively young companies, the report says. A January 2010 study by the same office, *Biotechnology Clusters Developing Slowly; Startup Assistance May Encourage Growth*, noted that although Florida had invested more than \$449 million dollars in the emerging biotech industry (as of January 2010) and the state possessed many of the requisite factors, such as university-based programs and government incentives, it still lacked the necessary venture capital funds. These early investments in biotech startups are essential to the companies' ability to commercialize their research and create high-wage jobs, the report says.

But even as Florida strives to attract a more diverse mix of high-value-added industries, it faces other challenges too, such as supplying a highly skilled workforce. The state ranks below the national average on key workforce measures such as educational attainment. Indeed, Florida's ability to capitalize on its growing industry clusters depends largely on its ability to produce a highly skilled workforce, say experts like Snaith, who advocates more investments in the state's education system.

Over the longer term, demographers largely agree that Florida's population growth will eventually rebound, pointing to assets such as a warm climate and miles of sandy beaches that have long lured people to the state. But while Florida will continue to draw new residents, it is unlikely to match the robust population growth of the past, at least in the near term. Fortunately, there is still cause for optimism about the Florida economy, according to the 2011 Wells Fargo report, which highlighted the life sciences sector and other high-growth industries in which the state is regionally competitive. Indeed, Florida ranked first in the nation for regional competitiveness, said the report, pointing to the state's "important enhancements to its university system to bring in more cutting-edge research," which "should pay off with an even better mix of high-growth industries in future years." ■

This article was written by Lela Somoza, a staff writer for EconSouth.

