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NEW CORNERSTONE REVISITED



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Research by:
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About the Florida Chamber Foundation

The Florida Chamber of Commerce Foundation is a research organization and problem-solver, working in partnership with state business leaders to advance and fund activities in public policy research in order to promote a healthy Florida economy. Founded 39 years ago by the Florida Chamber of Commerce, the Chamber Foundation has been a critical voice for improved public education and a pro-business, pro-Florida business climate that allows Florida to grow and prosper.

The Foundation takes pride in a record of important studies that have provided an intellectual framework for state policy:

- *New Cornerstone: Foundations for Florida's 21st Century Economy* (2003)
- *Transportation Cornerstone Florida: Moving Florida's Economy Into the 21st Century* (1999)
- *International Cornerstone Florida: Building a Crossroads Economy* (1997)
- *No More Excuses: What Businesses Must do to Help improve Florida's Schools* (1994)
- *Crossroads: Designing Florida's Tax Structure* (1990)
- *Cornerstone: Foundations for Economic Leadership* (1989)
- *Enterprise Florida: Growing the Future* (1989)
- *The Role of Privatization in Florida's Growth* (1986)

If you would like copies of this report or more information about *New Cornerstone: Foundations for Florida's 21st Century Economy*, please visit our web site at <http://www.NewCornerstoneonline.com> or contact:

Florida Chamber of Commerce Foundation, Inc.
Post Office Box 11309
Tallahassee, Florida 32302-3309
(877) 521-1230
e-mail: tcarvajal@flchamber.com

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Florida New Cornerstone Revisited

prepared for

Florida Chamber Foundation

prepared by

Cambridge Systematics, Inc.
100 Cambridge Park Drive
Cambridge, Massachusetts 02140

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Table of Contents

1.0 Introduction.....	1-1
2.0 The Big Picture: Is Florida’s Economy More Competitive?	2-1
2.1 Strong Growth Continues... ..	2-3
2.2 Florida’s Economy Diversifies... ..	2-3
2.3 Income Levels Rise... ..	2-6
2.6 Can the Good Times Continue?	2-7
3.0 Trade, Tourism, Technology, and Talent: Are We Making Progress?	3-1
3.1 Trade and Tourism	3-2
3.2 Technology.....	3-6
3.3 Talent	3-11
4.0 Florida’s Economic Foundations - The Basis for Success?	4-1
4.1 Business Climate	4-3
4.2 Infrastructure	4-5
4.3 Livability and Sustainability.....	4-7
4.4 Equity and Diversity.....	4-10
4.5 Economic Development Programs	4-11
5.0 Conclusions	5-1
5.1 Findings and Recommendations	5-1
5.2 Next Steps.....	5-2

List of Tables

2.1	Florida’s Overall Economic Performance.....	2-4
3.1	Trade and Tourism Indicators.....	3-4
3.2	Status of New Cornerstone Trade and Tourism Recommendations.....	3-5
3.3	Technology Indicators.....	3-8
3.4	Status of New Cornerstone Technology Recommendations.....	3-10
3.5	Talent Indicators.....	3-12
3.6	Status of New Cornerstone Talent Recommendations.....	3-14
4.1	Business Climate Indicators.....	4-3
4.2	Status of New Cornerstone Business Climate Recommendations.....	4-4
4.3	Infrastructure Indicators.....	4-6
4.4	Status of New Cornerstone Infrastructure Recommendations.....	4-6
4.5	Quality of Life Indicators.....	4-8
4.6	Status of New Cornerstone Quality.....	4-9
4.7	Equity and Diversity Indicators.....	4-10
4.8	Status of New Cornerstone Equity and Diversity Recommendations.....	4-11
4.9	Status of New Cornerstone Economic Development Recommendations.....	4-12

List of Figures

1.1	A Vision for Florida’s Future	1-2
1.2	New Cornerstone Strategy	1-3
2.1	Dashboard, <i>Florida’s Key Economic Indicators</i>	2-2
2.2	Job Growth Remains Strong.....	2-5
2.3	Job Growth by Industry	2-5
2.4	Per Capita Income Converges Toward U.S. Average.....	2-7
2.5	Is Florida Losing Its Allure?	2-8
3.1	Dashboard, <i>Trade and Tourism</i>	3-3
3.2	Dashboard, <i>Technology</i>	3-8
3.3	Dashboard, <i>Talent</i>	3-11
4.1	Dashboard, <i>Florida’s Economic Foundations</i>	4-2

1.0 Introduction

In 2003, the Florida Chamber Foundation released *New Cornerstone: A Vision for Florida's Economic Future*. This report, an update of the 1989 report, *Cornerstone: Foundations for Economic Leadership*, established a 10-year blueprint to move Florida's economy into the early part of the 21st century.

New Cornerstone was published as Florida's economy reached a turning point. The 1990s were a period of stunning growth and change for Florida's economy. The State created nearly two million new jobs during the decade, capping off this success by ranking first among all states for net job creation during the national recession of 2001-2002. However, many of these new jobs were in lower-paying service and trade industries, and the State made only modest progress in developing high-quality jobs in professional services and technology sectors. Per capita personal income – the single most basic measure of a region's economic prosperity – increased at a slower rate than the national average during the 1990s, pushing Florida residents from almost three percent above to nearly five percent below the national per capita income level.

New Cornerstone found that Florida faced two major options at the dawn of the 21st century. One option was to continue the path the state has followed for the past several decades: attracting tourists, retirees, and service-sector businesses and competing on the basis of its climate, location, and low cost of living. These factors were likely to ensure continued economic growth for the State, but as the 1980s and 1990s showed, without major improvements in the quality of the State's jobs or the prosperity of its residents. An alternative was for Florida to redouble its efforts to compete as a location for value-added production and services, primarily through nurturing home-grown businesses and marketing their products worldwide. If successful, Florida would realize a vital cycle of rising productivity and income levels – a period of sustained growth and development.

New Cornerstone set a bold, three-part vision for Florida during the first decade of the 21st century (see Figure 1.1):

1. **Global Leadership** – Make Florida the most competitive state in the key industries and economic activities of the early part of 21st century – similar to the position enjoyed by New York during the 1800s and California during much of the 1900s;
2. **Prosperous Families** – Increase Florida's per capita personal income above the national average by 2010; and
3. **Vibrant Communities** – Make Florida the number one state to live, work, and do business.

Figure 1.1 A Vision for Florida's Future
Can It Be Achieved?

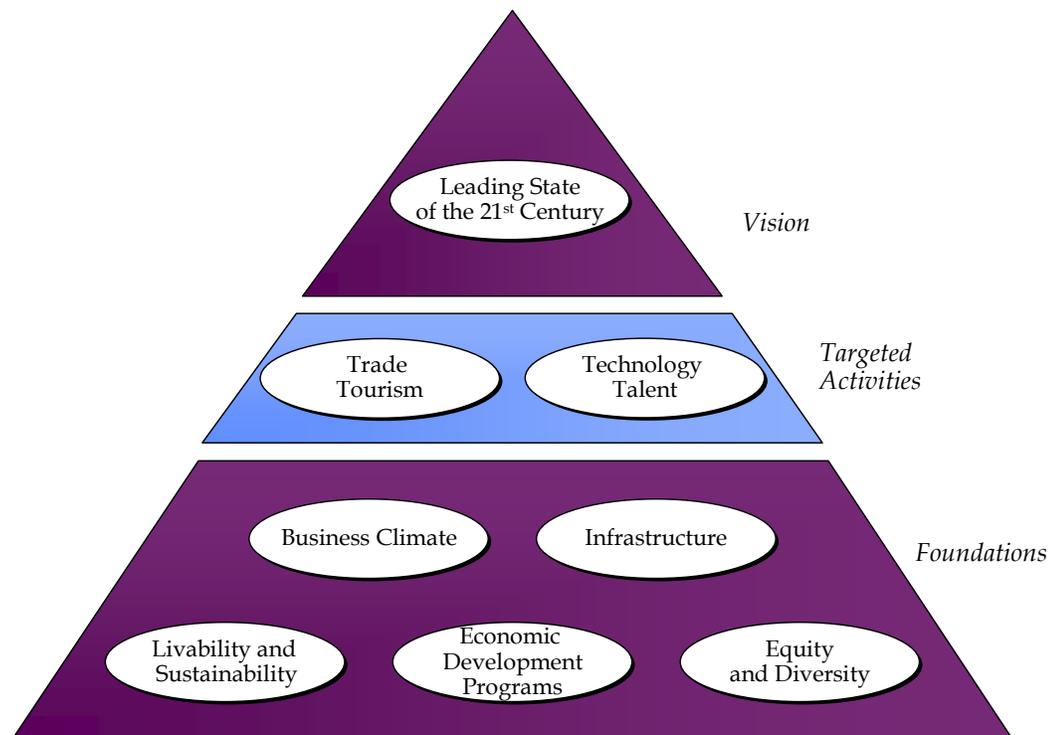


New Cornerstone also established a two-part action plan for achieving this vision. This action plan focused in two areas:

- **Strategic growth areas (the four T's)** – Over the next few decades, the State's best prospects for diversification and growth are in the "four T's" – trade, tourism, technology, and talent. In each of these areas, Florida has the capacity to become a worldwide leader and to create high-value jobs for its residents.
- **Economic foundations** – In addition, there are five supporting areas in which Florida must be competitive, both to support growth of the four T's and to create the environment where a wide range of industries can flourish. These five "foundations" provide the vital resources that communities and businesses need to compete in the global market. The foundations include both traditional and new emphasis areas for economic development: business climate, infrastructure, livability and sustainability, equity and diversity, and economic development programs.

New Cornerstone included 40 recommendations addressing the four T's and the economic foundations.

Figure 1.2 New Cornerstone Strategy



In 2007, the Florida Chamber Foundation initiated an effort to “revisit” *New Cornerstone*. The overall purpose of this report is to summarize the State’s progress after three years, and to identify priorities for future action by Florida’s public and private leaders. The specific objectives are to:

- Track Florida’s progress on the key indicators identified in *New Cornerstone* to identify where the State’s competitiveness has been changed;
- Update the status of the 40 recommendations identified in *New Cornerstone* to identify where progress has been made;
- Identify issues and opportunities that have emerged in importance since 2003 and should be integrated into the *New Cornerstone* blueprint;
- Identify potential changes to the *New Cornerstone* blueprint, so it remains the Foundation’s – and the State’s – guiding document through 2010; and
- Identify additional research needs for the Foundation.

This report is organized as follows:

- **Section 2.0** discusses indicators of Florida’s **overall economic performance**, including measures of population, employment, income, and cost competitiveness;
- **Section 3.0** reviews the State’s progress in developing **the four T’s – trade, tourism, technology, and talent**. The section summarizes indicators in each area, discusses progress to date in implementing relevant *New Cornerstone* strategies, and identifies key priorities for future action;
- **Section 4.0** assesses the State’s **economic foundations**. This section summarizes what Florida already has done to improve its economic foundations, and suggests priorities for future action; and
- **Section 5.0** provides **recommendations** for how the Florida Chamber Foundation will work with other partners to address the State’s remaining economic challenges.

2.0 The Big Picture: Is Florida's Economy More Competitive?

Highlights

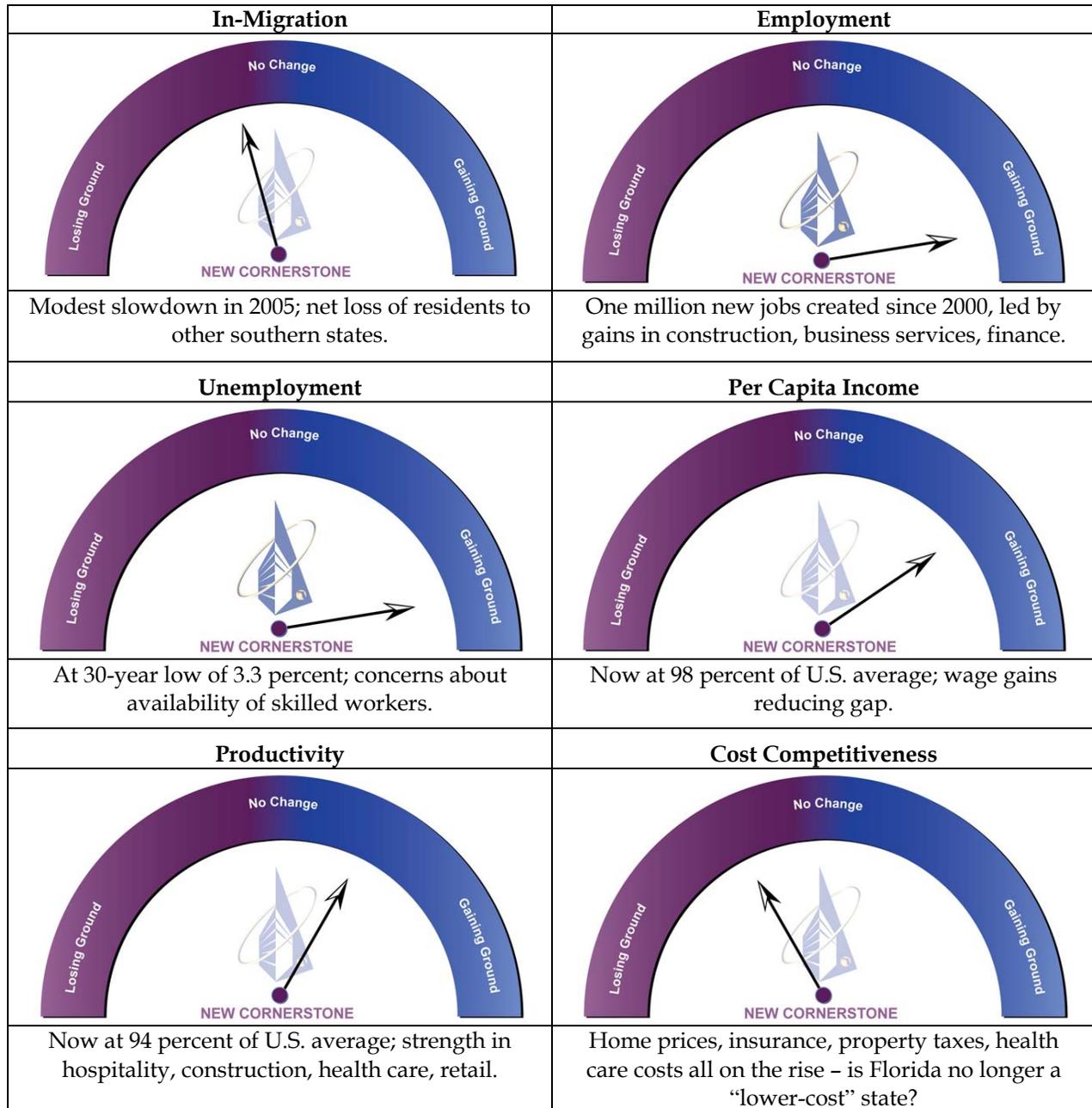
- *Florida's economy continues to grow at a rapid pace. The State's population, employment, and business output all are increasing at rates well above the national average, and the unemployment rate has reached a historic low.*
- *Florida appears to be making progress in creating high-quality jobs. Per capita income, wages, and productivity all are growing more rapidly than the national average.*
- *Recent increases in wages, home prices, property taxes, insurance premiums, and other business and living costs suggest that Florida's cost advantage over other states may be eroding.*
- *A decrease in the migration of new residents from other states to Florida and a correction in the overheated housing market point to a slowing of growth in the short term. However, Florida's long-term prospects remain strong, particularly if the recent progress on diversifying the economic base and strengthening the economic foundations continues.*

A globally competitive economy is critical to Florida's future. Economic competitiveness is more than the simple question of whether Florida is attracting new residents or creating new jobs. Fundamentally, Florida's economy can be described as competitive if it has the following characteristics:

- Florida enjoys a comparative advantage over other states and nations in one or more growth industries. Florida businesses in these sectors are viewed as global leaders, and are able to sell their goods and services worldwide, bringing income into Florida;
- Floridians enjoy a rising standard of living, as a result of higher wages or strong corporate profits; and
- Florida's communities are perceived as great places to work and to run a business. High-skilled workers and high-value businesses choose to locate and expand in Florida.

Florida's overall economy is becoming more competitive in each of these areas, although more challenges remain (see Figure 2.1).

Figure 2.1 Dashboard
Florida's Key Economic Indicators



■ 2.1 Strong Growth Continues...

Florida's economy continued its track record of strong growth during the past few years. Across the board, virtually every indicator of sheer growth was strongly positive (see Table 2.1):

- **Population.** Florida's population increased by 2.1 million residents between 2000 and 2006, reaching a total of 18 million. Florida is now the nation's fourth largest state, and is projected to surpass New York over the next several years. The State's population increased 2.1 percent per year, more than twice the national average.
- **Employment.** Florida created just under one million new jobs between 2000 and 2006, the largest net increase in employment among all 50 states. After a modest pause during the national recession of 2000-2001, Florida has become one of the nation's greatest job engines (see Figure 2.2). The State's employment increased 2.2 percent per year, more than four times the national average.
- **Unemployment Rate.** Florida's unemployment rate decreased from 3.8 percent in 2000 to 3.3 percent in 2006, more than a full percentage point below the national average. This is the lowest unemployment rate recorded in Florida in over 30 years, and a rate virtually unheard of in most other advanced economies worldwide.
- **Gross State Product.** Florida's gross state product – the value of all goods and services produced in the State – increased from \$472 billion in 2000 to \$714 billion in 2006. Florida's share of the national gross domestic product increased from 4.8 percent to 5.4 percent. An analysis by Enterprise Florida concluded that if Florida were a separate nation it would have the 19th largest economy in the world (with all U.S. states counted individually), similar in size to Brazil, Mexico, or Australia.¹

■ 2.2 Florida's Economy Diversifies...

Virtually every sector of the economy contributed to Florida's strong growth over the past few years (see Figure 2.3).

The fastest-growing sector was construction, which accounted for 21 percent of all new jobs between 2000 and 2006. The construction sector benefited from strong population growth and a boom in residential and commercial building through most of the past few years, including rebuilding following the six hurricanes that struck the State in 2004 and 2005. Florida's job base increased 10.4 percent per year between 2003 and 2006; excluding construction, job growth was a still strong 8.8 percent.

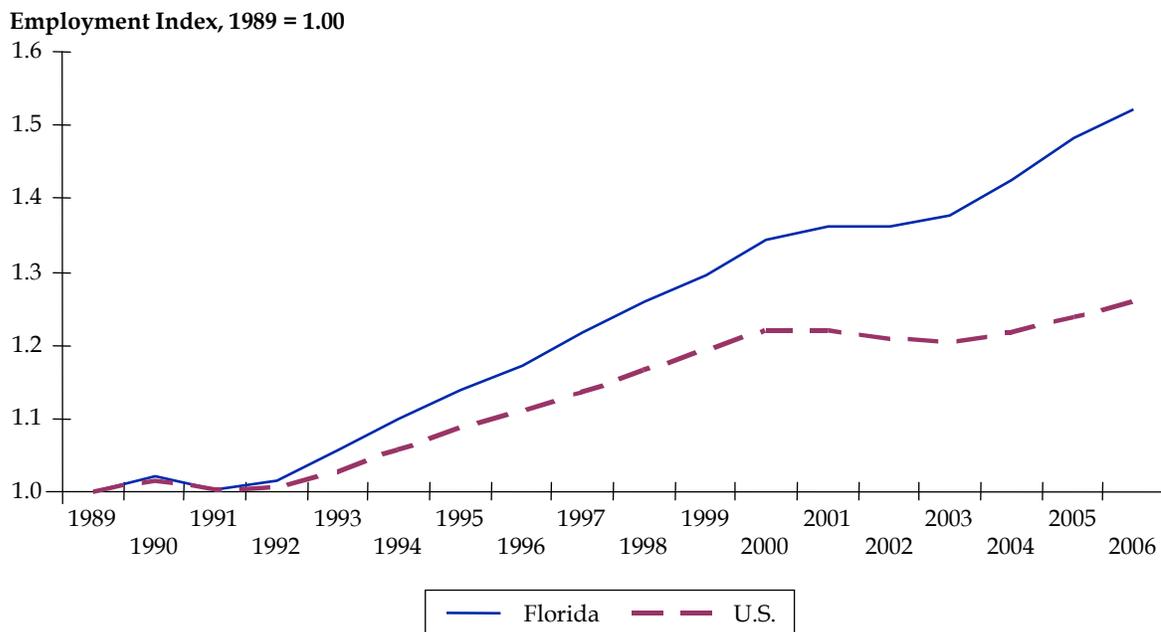
¹ Enterprise Florida, Inc., Florida's Global Economic Competitiveness, February 2007.

Table 2.1 Florida's Overall Economic Performance

Indicator	Level		National Ranking	
	Original (Year)	Current (Year)	Original	Current
Population				
Total population	15,982,378 (2000)	18,089,888 (2006)	4	4
Net increase, 2000 to 2006		2,107,510		3
Annual percent growth	2.1% (1990-2000)	2.1% (2000-2006)	7	6
Employment				
Total employment	7,069,500 (2000)	8,007,100 (2006)	4	4
Percent of U.S. total	5.4% (2000)	5.9% (2006)		
Net increase, 2000 to 2006		937,600		1
Annual percent growth	2.8% (1990-2000)	2.1% (2000-2006)	9	5
Unemployment rate	3.8% (2000)	3.3% (2006)	25	9
Gross State Product				
Gross state product	\$471.1B (2000)	\$713.5B (2006)	4	4
Percent of U.S. total	4.8% (2000)	5.4% (2006)		
Gross state product per worker	\$62,504 (2000)	\$80,691 (2005)	28	25
Percent of U.S. average	89.1% (2000)	91.9% (2005)		
Income and Wages				
Per capita income	\$28,507 (2000)	\$35,798 (2005)	20	20
Percent of U.S. average	95.5%	98.7%		
Average annual wage	\$30,296 (2000)	\$36,583 (2005)	28	24
Percent of U.S. average	87.3%	91.1%		
Costs				
Median home price	\$158,400 (2003)	\$248,300 (2006)		
Percent of U.S. average	93%	112%		
Cost of doing business index		99.1 (2006)		31

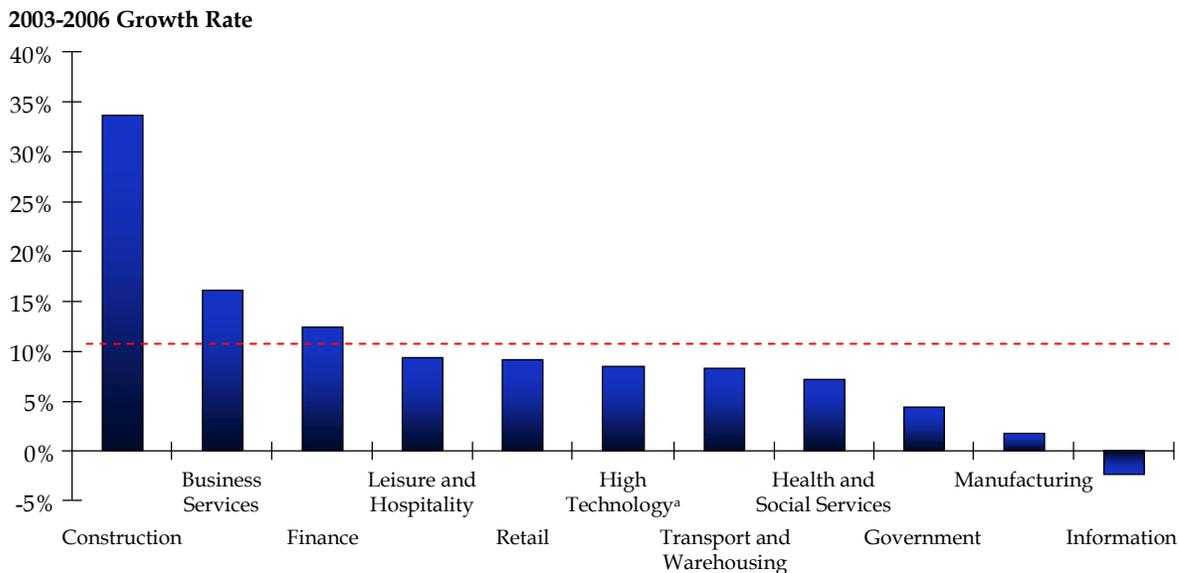
Sources: U.S. Census Bureau, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, National Association of Realtors, Florida Association of Realtors, Milken Institute.

Figure 2.2 Job Growth Remains Strong
One Million New Jobs since 2000



Source: U.S Bureau of Labor Statistics.

Figure 2.3 Job Growth by Industry



Source: U.S. Bureau of labor Statistics.

^aHigh-technology employment is estimated using U.S. Bureau of Labor Statistics data and a definition of high-tech industries developed by the American Electronics Association.

The business services and finance industries also grew at above-average rates, reflecting strong demand from Florida residents and businesses and the State's growing role as a hub for Latin American commerce and related business services. The large hospitality and retail industries also continued to expand due to the strong population growth and visitor activity.

Florida businesses continued to look toward global markets, with a surge in exports of both goods and services offsetting declines in foreign direct investment and international travel to Florida.

Meanwhile, longstanding efforts to expand Florida's technology sectors started to have an impact, as seen in a series of major investments announced in the life science and aerospace industries. Employment in high-tech sectors such as life sciences, electronics, and aerospace increased 8.4 percent between 2003 and 2006. Florida now has more high-tech jobs than all but three states, according to the American Electronics Association. Manufacturing employment increased slightly in Florida, bucking the national trend.

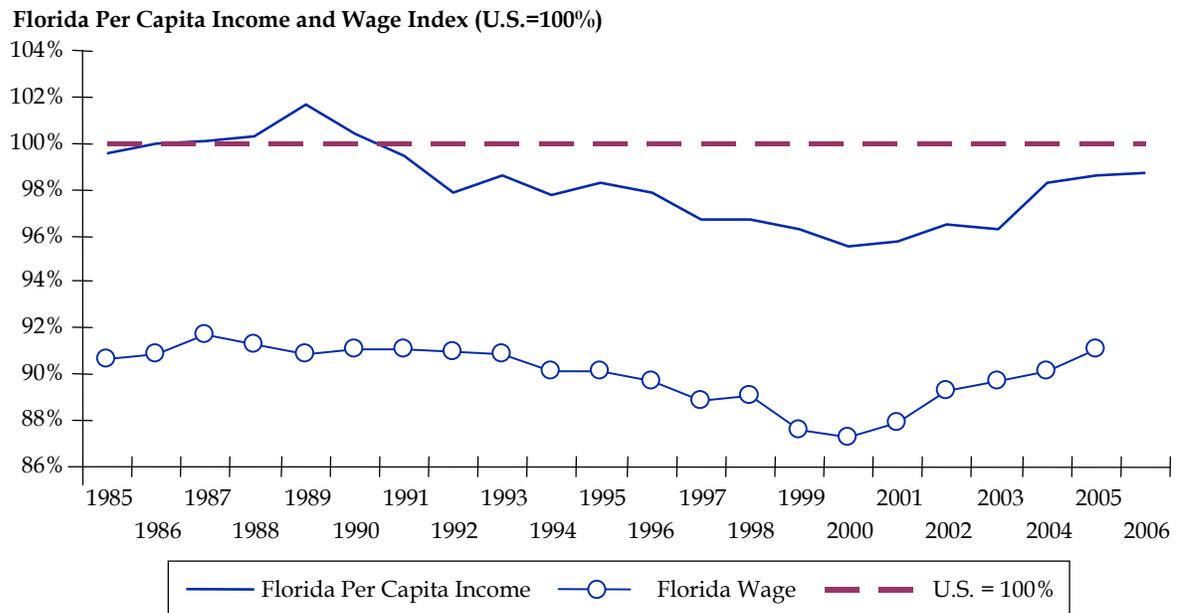
■ 2.3 Income Levels Rise...

Most encouraging of all, Florida appears to be making progress in creating greater prosperity for its residents. Floridians' per capita income closed the gap with the nation's, rising from 96 percent of the national average in 2000 to just under 99 percent in 2006 (see Figure 2.4).

The major source of these income gains was higher wages. Florida's average annual wage per worker increased from 87 percent to 91 percent of the national average. While Florida remains a competitive location for businesses in most industries, wages are converging toward the national average as a result of higher productivity for Florida businesses and a shift in the State's job mix toward higher-wage industries such as technology and professional services. While the tight labor market and increasing housing costs may be a factor as well, the driving forces behind Florida's wage gains appear to be the shift to higher-value, more productive economic activities.

Another key source of income growth was an increase in investment income related to interest, dividends, and rent. The average investment income for Florida residents increased nine percent between 2000 and 2006, compared to a slight decline nationally. This growth may be difficult to sustain as housing prices retrench.

Figure 2.4 Per Capita Income Converges Toward U.S. Average



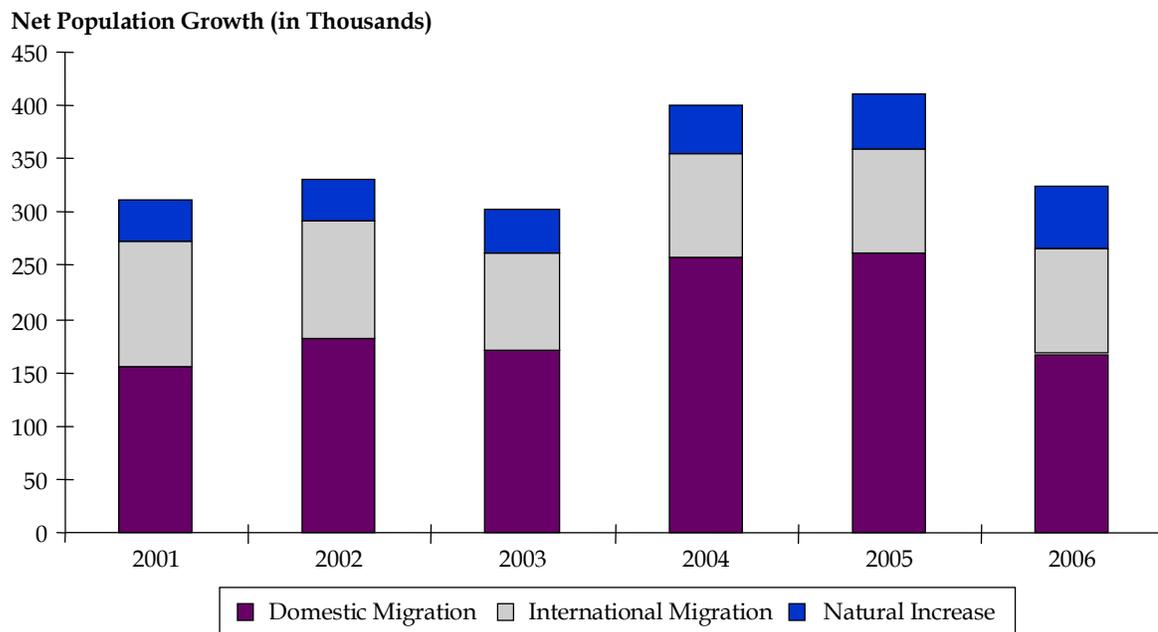
Source: U.S. Bureau of Economic Analysis.

■ 2.4 Can the Good Times Continue?

Will the growth and prosperity of the past few years continue? Beneath the positive trends are a few clouds on Florida’s horizon:

- The migration of residents from other states to Florida - traditionally the top driver of the State’s growth - slowed in 2006 (see Figure 2.5). Florida’s population increased by about 320,000 residents in 2006 - down from the torrid pace of 2004 and 2005. Most of the decrease was in domestic migration. Florida continued to attract residents from the Northeast and the Midwest, but Florida became a net exporter of residents to other Southern states. This trend was confirmed by major moving lines such as Atlas, Allied, and United Van Lines, who reported more vans leaving Florida than entering the State in 2006. This outflow may be for a variety of reasons - including the hurricanes and the increase in home prices and property taxes. It may be just temporary, and indeed every major long-term forecast shows Florida’s population doubling over the next 50 years. Net migration remains among the strongest in the nation, and on a par with 2001-2003 levels, so the modest slowdown in 2006 may just be a pause. A further reduction in population growth in 2007 would suggest that Florida is beginning to lose its allure.

Figure 2.5 Is Florida Losing Its Allure?
Domestic Migration Drops in 2006; Blip or Start of a Trend?



Source: U.S. Census Bureau.

- Florida’s unemployment rate has reached record-low levels, raising concerns about the availability of sufficient labor for companies planning major expansion. The need for employers to compete for an increasingly tight pool of skilled workers also may place upward pressure on wages.
- Florida’s construction market is coming back to earth after a decade of stunning growth. The value of construction put in place doubled from about \$35 billion in 2000 to \$70 billion in 2005, before falling back to \$60 billion in 2006, according to F.W. Dodge. This decline is continuing into 2007, with the number of new housing permits issued for the first seven months of the year down more than 55 percent from the same period in 2005, according to the Census Bureau. At its peak, the value of residential construction in Florida exceeded that of California, a state twice as large. Florida’s construction market is expected to resume growth after a short-term correction; a deep or sustained downturn in construction could significantly slow the State’s growth.
- Florida is transitioning from being a low-cost state to a higher-cost state. Several factors are contributing to increase the cost of living and doing business in Florida. Wages are increasing due to higher productivity and perhaps the tight labor market. Home prices surged 60 percent between 2003 and 2006 (before easing back in 2007), with Florida’s median sales prices rising above the national average, according to the National Association of Realtors. Property tax bills are climbing in response to the

higher home prices. Insurance costs are escalating following six hurricanes over a two-year period. The costs of transportation, energy, and commodities all are rising.

Taken together, these trends suggest that Florida's economic task is not complete. Rather than rely on in-migration and construction to drive short-term results, Florida must continue to develop a diversified economic base and strengthen those sectors in which it can be a global leader. And as a higher-cost state, Florida must compete based on quality and innovation, rather than on low costs.

3.0 Trade, Tourism, Technology, and Talent: Are We Making Progress?

Highlights

- *Florida continues to increase global market share in exports of goods and services, but needs to remain vigilant since many other states are targeting the same markets.*
- *Florida gained market share for U.S. domestic tourist expenditures, which offset a drop in market share among international visitors. Homeland security processes may be impeding international visitors.*
- *A series of recent high-profile investments have buoyed life sciences, aerospace, and other technology industries. Florida's share of all high-tech jobs nationally has grown, but the State has made less progress in developing key aspects of an innovation economy, including research and development activity, a robust pipeline for commercializing new technologies, and access to venture capital.*
- *Florida's talent base has seen modest improvements in high school graduation rates, college degree production rates, and other measures of educational attainment, but many of these gains are on par or slightly behind other states. Perhaps the most encouraging news is strong improvement in test scores at the fourth grade level, which suggests a long-term, systemic change.*

The core of the *New Cornerstone* vision is economic diversification, with focus on four strategic areas:

- **Trade and Tourism** - Growing Florida's role as a global center for the commerce of goods, services, investment, and information;
- **Technology** - Incubating, growing, and sustaining emerging businesses and entrepreneurs in high value-added industries; and
- **Talent** - Developing, attracting, and retaining a skilled, creative workforce.

Each of these strategies builds on Florida's existing asset base and represents areas in which Florida can become a global leader over the next decade. Each strategy has the potential to raise average wage and income levels. Finally, each strategy could be pursued in tandem with community goals; in fact, in all cases the State's quality of life and embrace of diversity appears to be a critical prerequisite for success.

■ 3.1 Trade and Tourism

Why Does It Matter?

With 95 percent of the world's population and 80 percent of worldwide consumption located outside of the United States, the global market offers tremendous long-term potential for Florida businesses. Companies that export goods and services tend to pay salaries 15 to 20 percent higher than all other businesses, according to national studies.

With the exceptions of greater New York and Southern California, few United States regions offer the potential to be as well integrated into the global economy as Florida. Florida has a commanding share of trade between the United States, Latin America, and the Caribbean. The Sunshine State also is one of the world's leading tourist destinations, and is expanding its presence in other aspects of international commerce. The contribution of merchandise trade, services trade, payroll at foreign-owned firms, and international tourist spending is more than 20 percent of Florida's gross state product – and there is still room to grow.

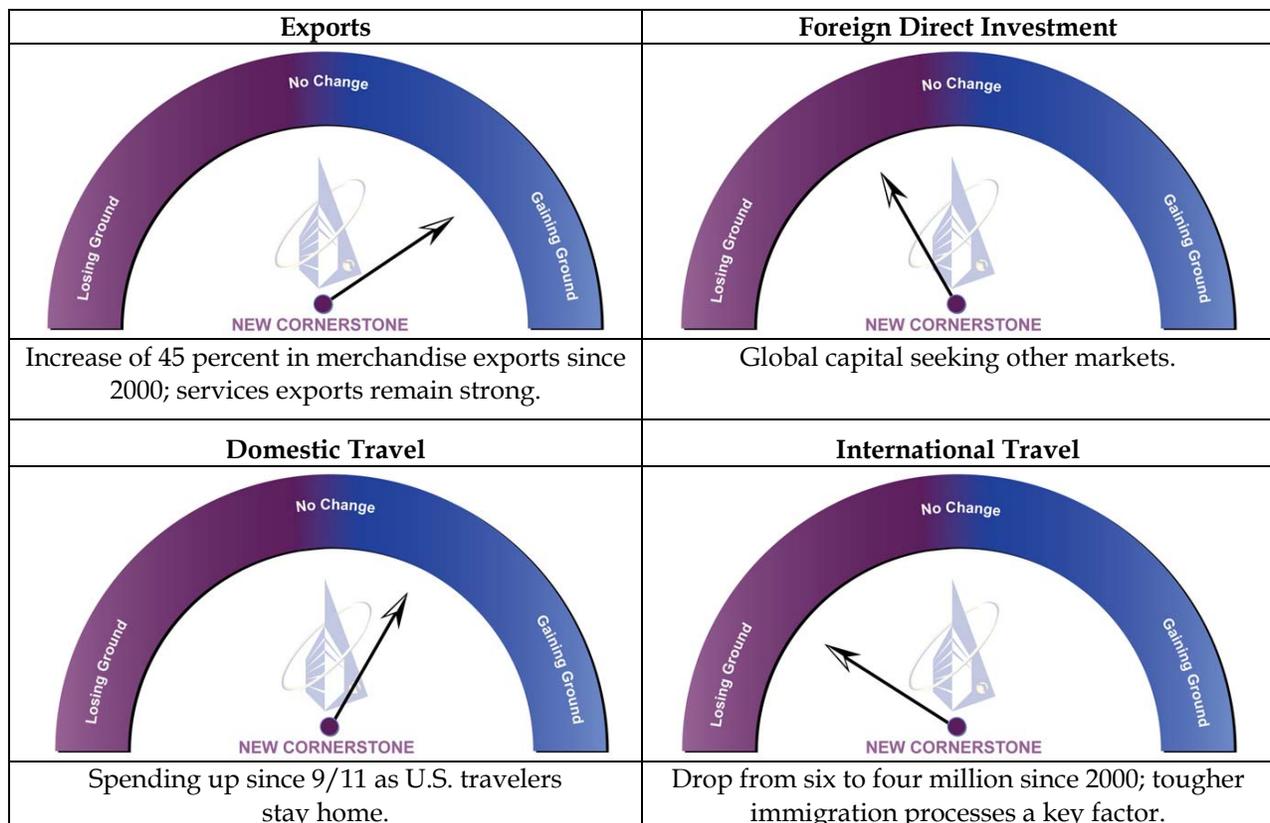
How Are We Doing?

Florida's global portfolio overall has improved during the last few years, but the State also has lost ground in some critical areas (see Figure 3.1 and Table 3.1):

- **Merchandise trade.** The total value of goods moving to, from, and through Florida has doubled over the last decade, reaching a total of \$110 billion in 2006. The value of Florida-origin-exports – those goods that are produced in Florida for export markets – increased from \$26.5 billion in 2000 to \$38.5 billion in 2006, the seventh highest total among the 50 states.
- **Services trade.** Florida businesses sold nearly \$23 billion in services such as health care, engineering, law, and finance to foreign consumers in 2005, the fourth highest total among the 50 states.
- **Foreign direct investment** in Florida companies has declined significantly, from \$38.8 billion in 2000 to \$31.7 billion in 2004. This decline reflects volatility in the Latin American markets that traditionally have been strong investors in Florida, heightened restrictions on international travel since the events of 9/11, and strong competition from other states.

- Tourism.** Florida ranks second among the states as a domestic travel destination. Domestic visitors spent \$46.7 billion in Florida in 2004 (latest data available), up from \$41.7 billion in 2000. The number of international visitors plummeted, from six million in 2000 to just over four million in 2006, with heightened immigration provisions one reason for the decline.
- Global business image.** The State’s business image has improved significantly. In 2006, a leading research firm cited 74 percent of U.S. executives rated Florida as having a favorable business image, a considerable improvement over a similar but not identical study completed in 2002.¹

Figure 3.1 Dashboard
Trade and Tourism



¹ Enterprise Florida, 2006 *Florida Business Image Study of C-Level Executives*. The 2002 results were based on an open-ended question while the 2006 study had a close-ended question. The 2006 methodology will be repeated in future studies to allow consistent comparisons with earlier years.

Table 3.1 Trade and Tourism Indicators

Indicator	Level		National Ranking	
	Original (Year)	Current (Year)	Original	Current
Exports				
Florida-origin merchandise exports, total	\$26.5B (2000)	\$38.5B (2006)	7	7
Percent of U.S. total	3.4% (2000)	3.7% (2006)		
Percent of gross state product	5.6% (2000)	5.4% (2006)	22	34
Florida-origin services exports total ^a		\$23B (2005)		4
Percent of U.S. total		6.4%		
Percent of gross state product		3.4% (2005)		5
Foreign Direct Investment				
Foreign direct investment in Florida companies (value, all affiliates)	\$38.8B (2000)	\$31.7B (2004)	6	11
Percent of U.S. total	3.3% (2000)	2.6% (2004)		
Percent of gross state product	8.0% (2000)	5.3% (2004)	39	45
Tourism				
Expenditures by U.S. visitors	\$41.7B (2000)	\$46.7B (2004)	2	2
Percent of U.S. total	8.5% (2000)	8.8% (2004)		
Total number of international visitors	6.0M (2000)	4.1M (2006)	2	3
Percent of U.S. total	23.2%	20.2%		

Sources: WISERTrade, U.S. Bureau of Economic Analysis, U.S. International Trade Administration, Coalition of Service Industries, Travel Industry Association of America.

^a Comparable data not available for original year.

What Has Been Implemented?

New Cornerstone set aggressive goals for becoming a global leader in every aspect of international commerce – including goods, services, visitors, investment, and information. To accomplish these goals, *New Cornerstone* recommended that Florida provide high-level leadership in the global marketplace, including aggressive support of further trade liberalization; strengthen global connectivity; and enhance Florida's global business image.

The centerpiece of the recommendations was support for the creation of the Free Trade Area of the Americas (FTAA), a hemisphere-wide free trade zone that would rival the European Union. Miami is one of the candidates to become the Secretariat of the FTAA, effectively becoming the Brussels of the Americas. Negotiations to establish the FTAA have reached an impasse, but smaller-scale agreements have been reached, including the United States-Dominican Republic-Central America Free Trade Agreement.

The State has made progress in implementing other key international strategies of *New Cornerstone* (see Table 3.2). International trade was identified as a key priority in Florida's Strategic Plan for Economic Development. The Legislature has continued to provide funding for Enterprise Florida's international trade and business development programs. Many of the State's best practices in international market expansion have continued, including the Florida Services Network, the Florida Trade Network, international visitors councils, and TEAM Florida trade missions.

Table 3.2 Status of New Cornerstone Trade and Tourism Recommendations

Recommendation	Status
Attract Free Trade Area of the Americas (FTAA) Secretariat to Miami.	Agreement to establish FTAA at an impasse; smaller-scale agreements reached with the Dominican Republic and Central American nations.
Provide high-level, sustained leadership for Florida's international priorities and foreign policy.	International market expansion identified as a key priority in Florida's Strategic Plan for Economic Development; transitioning to new Administration.
Preserve, expand, and integrate Florida's best practices in global market expansion.	More support needed for some key programs; integration still in progress.
Invest in long-term market expansion initiatives (e.g., China, Africa, Cuba, services exports, e-business).	More support needed for some key programs.
Enhance Florida's global business image.	Need to fully fund statewide marketing effort.

Other long-term market expansion initiatives identified in *New Cornerstone* have made less progress. These include more focused efforts to encourage more businesses to sell their products and services worldwide; to sharpen the State's foreign direct investment strategy; to position Florida for emerging trends in the global marketplace, especially those related to e-business; and to better integrate the State's efforts related to trade promotion, investment attraction, tourism marketing, and economic development.

The next great leap forward for Florida internationally will result from mainstreaming more Florida businesses into the global market, so that Florida becomes a platform for selling value worldwide, rather than just a launching point for moving goods and people. *New Cornerstone* reported that as many as 20,000 to 30,000 Florida businesses have products or services that could be sold globally, but are not currently participating in the international market. It also estimated that as much as half of the imports and exports moving through Florida's seaports and airports are neither consumed nor produced in Florida. Adding more value to these flows could further enhance Florida's economy.

Florida also can prepare for emerging opportunities in the international arena. The widening of the Panama Canal, together with the congestion on U.S. West Coast ports, will make Florida and other Gulf Coast ports more attractive to Asian companies trying to

serve the large U.S. consumer market. China, India, and other Asian nations, as well as, to a lesser extent, Africa, continue to represent critical “new frontier” markets for Florida, and the State also must prepare for the potential reopening of Cuba. Finally, the State must redouble efforts to facilitate the flow of international visitors, who are so critical to the State’s tourism, economic development, and trade promotion activities.

What’s Next?

- Ensure strong state-level leadership and support for key international competitiveness initiatives.
- Position Florida seaports, airports, and related businesses for the widening of the Panama Canal and the anticipated normalization of relations with Cuba.
- Continue to expand the number and range of Florida businesses involved in the global market.
- Refocus Florida’s foreign direct investment strategy on supply chains and technology industries that would leverage existing export strengths.
- Work with Federal agencies to enhance border security without impeding the flow of people and goods through Florida’s seaports and airports.
- Provide sustained funding for statewide marketing efforts.

■ 3.2 Technology

Why Is It Important?

Today’s most competitive regional economies are characterized by emerging, innovation-oriented businesses, and highly skilled knowledge workers. Technology companies have been an important driver of these successful regions – Silicon Valley, Boston, Austin, Raleigh-Durham, Seattle, San Diego – but the ultimate driver of success has been the innovation and flexibility of these regions, not the technologies themselves.

Technology is becoming a more significant part of Florida’s economic base. High-tech jobs pay approximately 70 percent more than the average pay for all private businesses, according to the American Electronic Association. High-tech companies account for about one-third of Florida’s international exports. Florida’s historical legacy and current position in key technology industries such as life sciences, aerospace, and electronics is stronger than most people realize – yet the potential for future growth is great.

How Are We Doing?

Florida's technology sector has strengthened during the past few years. Using the definition developed by the American Electronics Association's Cyberstates report, Florida had about 276,000 high-tech jobs in 2005, the fourth highest total nationally and just below the State's prior peak in 2001. Florida's share of total U.S. high-tech employment has increased steadily, from 4.3 percent in 2001 to 4.8 percent in 2005. The State's share of all high-tech establishments nationwide is even higher, at 6.1 percent in 2004.

Florida has become a national leader in several key high-tech industries. The State ranks third among the 50 states for employment in telecommunications services, engineering services, Internet services, communications equipment manufacturing, defense electronics, computer training, and space, aeronautics, and aviation-related industries, according to Enterprise Florida. The State ranks among the top five states nationally for employment in photonics manufacturing and computer design systems.

A series of high-profile announcements over the past few years has made Florida more prominent as a high-tech state. Scripps Research Institute, the Burnham Institute for Medical Research, and the Torrey Pines Institute for Molecular Studies all selected Florida for major research sites, putting the State on the map in life sciences research. The Space Coast successfully attracted the final assembly of Orion, the successor to the Space Shuttle as the nation's primary civil space launch vehicle.

Despite these successes, Florida's technology sector primarily is oriented toward production and support services, rather than to high-value added activities related to research and innovation. The State has been making progress in developing a pipeline of research and commercialization centered around major universities, laboratories, and technology companies, but significant obstacles remain (see Figure 3.2 and Table 3.3):

- The State's research effort is low compared with other states and developed nations, putting Florida at a disadvantage in terms of its ability to generate new discoveries. Research and development (R&D) spending represents less than one percent of Florida's gross state product, compared with over two percent nationwide. University R&D funding has doubled since 1998, but still remains low compared with competitor states.
- The technology transfer and commercialization process is complex, reducing the number of new discoveries that make it to market. The total number of patents issued to Florida businesses has not changed significantly since 2000, ranking only 31st among the 50 states on a per-worker basis. Patents issued to universities have increased 18 percent, while revenue generating licenses to universities are up 5 percent.
- The availability of risk capital for new and emerging businesses remains scarce. Total venture capital invested in Florida plummeted from about \$2.5 billion in 2000 to \$304 million in 2006, exceeding the national decline. Florida accounts for just 1.2 percent of the nation's venture capital investments, and less than one percent of seed and early-stage capital, according to Enterprise Florida.

Figure 3.2 Dashboard
Technology

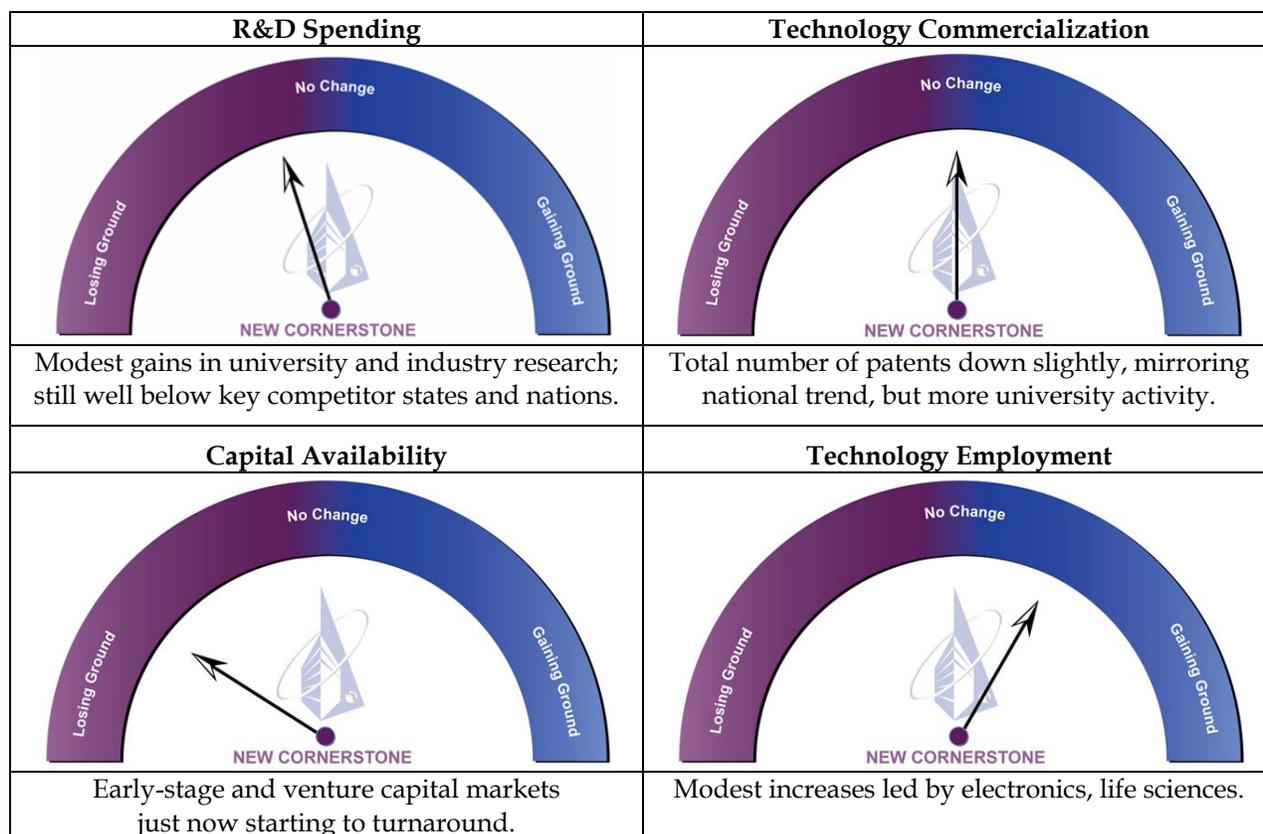


Table 3.3 Technology Indicators

Indicator	Level		National Ranking	
	Original (Year)	Current (Year)	Original	Current
Research and Development (R&D) Spending				
Total dollars invested	\$4.8B (1998)	\$5.4B (2004)	13	17
Percent of U.S. total	2.2% (1998)	1.9% (2004)		
Percent of gross state product	1.1% (1998)	0.9% (2004)	31	40
Total industry R&D	\$3.3B (1998)	3.5B (2004)	14	18
Total university R&D	\$705M (1998)	\$1.4B (2005)	12	11
Technology Commercialization				
Total issued	2,649 (2001)	2,600 (2006)	10	12
Percent of U.S. total	3.0% (2001)	2.9% (2006)		
Patents per 1,000 workers	0.37 (2000)	0.32 (2006)	30	31
Per capita university license and royalties income	\$12.22 (2000)	\$7.86 (2003)	5	11

Table 3.3 Technology Indicators (continued)

Indicator	Level		National Ranking	
	Original (Year)	Current (Year)	Original	Current
Capital Availability				
Total venture capital disbursed	\$2.3B (2000)	\$303.6M (2006)	11	15
Percent of U.S. total	2.2% (2000)	1.2% (2006)		
Venture capital disbursed per \$1,000 of gross state product	\$3.38 (2000)	\$0.43 (2006)	21	22
Private lending to small businesses, dollars per worker	\$1,068 (1998)	\$1,723 (2003)	31	24
Capital raised from initial public offerings (IPO proceeds per 1,000 firms)	\$2.43 (2001)	\$3.70 (2005)	17	22
Employment and Businesses				
High-tech employment	238,747	276,400 (2005)	5	4
Percent of U.S. total	4.3% (2001)	4.8% (2005)		
Business startups (rate per 1,000 workers)	8.59 (1998)	9.1 (2005)	10	4
Business failure rate (rate per 1,000 businesses)	15.9 (1998)	13.1 (2005)	41	31

Sources: National Science Foundation, U.S. Patent and Trademark Office; American Electronics Association, U.S. Small Business Administration, Venture Economics.

What Has Been Implemented?

New Cornerstone recommended a comprehensive strategy for creating a pipeline of innovation in Florida. This strategy focused on aggressively expanding the State's R&D capacity, particularly at universities and other "idea factories"; creating a "hot house" environment where emerging businesses could easily access seed capital and mentoring and other entrepreneurial support; and sustaining an entrepreneurial-friendly business climate, characterized by access to skilled labor and expansion capital statewide, competitive and predictable regulatory regimes, and flexible support services and networks.

These recommendations were substantially implemented by the Governor and Legislature in 2006 and 2007 through a series of landmark acts (see Table 3.4). Programs created or expanded include the following:

- Continued funding for university centers of excellence (\$30 million in 2006 and \$130 million in 2007);
- Creation of the World Class Scholars Program to attract leading researchers to the State, with \$100 million in funding in 2006;

- Creation of the Innovation Incentive Fund to help Florida compete for high-value research and development projects, with funding of \$200 million in 2006 and \$250 million in 2007;
- Creation of the Florida Opportunity Fund to invest seed and early-stage capital into Florida-based companies, with initial investment of \$30 million in this fund; and
- Creation of Space Florida, Inc. to consolidate multiple agencies into a single entity that will drive Florida’s space-related business development.

Table 3.4 Status of New Cornerstone Technology Recommendations

Recommendation	Status
Create “idea factories” centered around Florida’s research universities and labs.	Legislature extends Centers of Excellence Program, creates World Class Scholars Program, and creates Innovation Incentive Fund.
Cultivate continuation of options for risk capital.	Legislature creates Florida Opportunity Fund to provide early stage venture capital to Florida-based businesses.
Develop new generation of incubators and support services.	Multiple ongoing initiatives; more support for technology commercialization at universities.
Update tax and regulatory policy to reflect entrepreneurial needs.	Full sales tax exemption for R&D equipment enacted.

The State also created technical assistance programs to help small businesses submit more qualified programs to the Federal Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs; the Institute for the Commercialization of Public Research to help universities, colleges, and research institutes in the commercialization of research products; and the State University Research Assistance Grant Program to help develop and implement business plans for converting new ideas into successful businesses.

What’s Next?

- Leverage recent investments in centers of excellence and major research institutes; identify spin-off opportunities.
- Monitor impacts of new programs enacted by the Governor and Legislature.
- Address emerging market opportunities related to life sciences, aerospace, defense/homeland security, and environmental solutions.
- Continue efforts to increase public and private R&D spending.
- Mainstream innovation into regional and local economic development strategies.

■ 3.3 Talent

Why Is It Important?

Florida’s intellectual infrastructure – workforce skills, education system, and research and development capacity – may be the critical determinant of the State’s competitiveness in the 21st century. Knowledge is the final ingredient that drives innovation, distinguishes products and services, and helps businesses extend their reach globally. The presence of a critical mass of high skilled workers is a powerful attraction for businesses, and is strongly correlated with higher income levels.

How Are We Doing?

The educational attainment of Florida’s adult population is improving but is still below the national median. In 2005, 84.6 percent of Floridians ages 25 and over held a high school diploma, and 25.1 percent held a college degree. Both of these represent improvements since 2000, in line with national trends (see Figure 3.3 and Table 3.5).

Figure 3.3 Dashboard
Talent

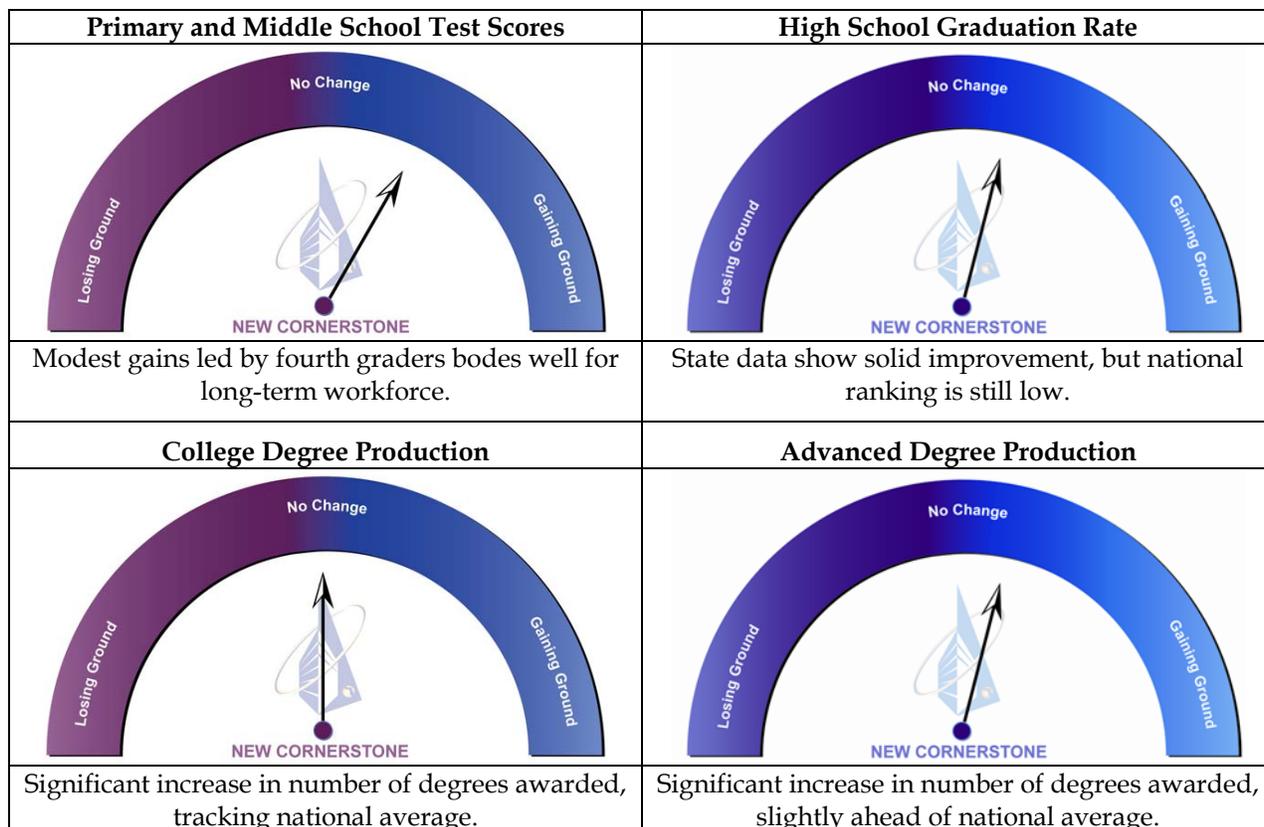


Table 3.5 Talent Indicators

Indicator	Level		National Ranking	
	Original (Year)	Current (Year)	Original	Current
<i>Current Workforce</i>				
High school attainment (percent of adult population with a high school diploma)	84% (2000)	84.6% (2005)	34	32
College attainment (percent of adult population with a college degree diploma)	22.8% (2000)	25.1% (2005)	37	29
Ph.D. scientists and engineers per 1,000 workers	2.0 (1997)	1.9 (2003)	48	48
Labor productivity (GSP per employee)	\$66,565 (2000)	\$86,204 (2005)	28	25
<i>Future Workforce</i>				
Fourth grade math scores on NAEP	234 (2003)	239 (2005)	30	24
Fourth grade reading scores on NAEP	218 (2003)	219 (2005)	31	28
Eighth grade math scores on NAEP	271 (2003)	274 (2005)	37	35
Eighth grade reading scores on NAEP	257 (2003)	256 (2005)	41	39
High school graduation rate (percent of entering first-year students graduating four years later; national data)	56% (1999)	57.5% (2003)	45	46
High school graduation rate (state data)	62.3% (2000)	71% (2006)		
College continuation rate (percent of high school graduates attending college in fall term immediately following graduation)	50% (1998)	53.5% (2004)	43	33
College continuation rate (percent of high school graduates attending college in fall term immediately following graduation; state data)	51.9% (2000)	57.6% (2005)		
Baccalaureate degree production rate (number of new degrees per 100,000 residents ages 20-44)	883 (2000)	1,107 (2004)	44	44
Advanced degree production rate (number of degrees awarded per 100,000 residents ages 20-44)	421 (2000)	513 (2004)	38	34
Science and engineering Ph.D. production rate (number of new degrees per 100,000 residents ages 20-44)	13 (2001)	17 (2004)	40	40

Sources: U.S. Census Bureau; U.S. Department of Education, National Science Foundation, National Center for Education Statistics; Florida Department of Education.

The sheer size of Florida's labor force – some nine million strong – provides access to a wide range of workers, but the State's increasingly tight labor market make it difficult for prospective employers to find large pools of workers to support expansion decisions. In addition, certain critical skill sets remain in short supply – in particular, the number of Ph.D. scientists and engineers, relative to the size of Florida's workforce, is lower than in all but two states.

The ability of Florida's educational system to produce the workforce of the future remains a greater concern. *New Cornerstone* estimated that four out of five new jobs in Florida through the year 2010 would require some form of post-secondary education and training. Florida's educational system, like most other states', is not producing graduates at that rate. Specifically:

- High school completion rates are low by almost any measure. The National Assessment of Educational Progress (NAEP) reports that 80 percent of 18 to 24 year olds in Florida have earned a high school diploma and 5 percent have earned a general education development (GED) degree, compared to a combined total of 94 percent nationwide. Just over 71 percent of incoming high school freshmen graduate within four years, according to the Florida Department of Education. While an increase from 62 percent in 2000, this graduation rate remains too low for a competitive economy. The U.S. Department of Education, using a consistent methodology for all states, estimates that Florida's four-year high school graduation rate was 57.5 percent in 2003 (latest data available), up only slightly since 1999 and ranking 46th in the nation.
- The preparedness of high school graduates for the workforce or college is below that of other states. The percentage of students taking high-level math and science courses is improving but is well below the national average. Scholastic Achievement Test (SAT), American College Test (ACT), and other standardized test scores remain below average.
- Just over half of high school graduates continue onto college in the fall following graduation, up slightly since the beginning of the decade. Florida now ranks 33rd among the states on this measure, an improvement from 43rd in 1998.
- Adjusted for the size of the State's young working age population (ages 20 to 44), Florida ranked 44th among the states for production of new baccalaureate degrees, 34th for advanced degrees, and 40th among the states for production of science and engineering doctoral degrees in 2004. These rankings have not significantly improved since 2000.

Several promising trends suggest that Florida's educational system will produce stronger results in the years ahead. Perhaps most significantly, standardized test scores are showing marked improvement as far back as the fourth grade. Florida's fourth graders generally score around the national median on standardized tests like the NAEP; Florida's eighth graders generally place near the bottom of the third quartile; and Florida's high school students generally place in the bottom quartile. This suggests a long-term, systemic improvement in school performance that will ripple throughout the State's education system.

In addition, Florida's colleges and universities are enjoying a surge in enrollment and stronger completion rates. Florida colleges and universities conferred 187,500 post-secondary degrees in 2006, ranking fourth in the nation. Nearly 18,000 more students migrated to Florida for college than left Florida for other states in 2004, the largest net immigration among the 50 states. Public university enrollment has increased by more than 55,000 students in six years, and four universities each host more than 40,000 students, raising questions about at what point Florida's university system will reach capacity.

What Has Been Implemented?

During the late 1990s, Florida’s public and private organizations made great strides toward addressing the longstanding deficiencies of the State’s education system, through initiatives such as the Sunshine State Standards, the A+ plan, and the reorganization of educational system governance into a seamless K-20 system. *New Cornerstone* called for the State to build upon these successes and focus future efforts in three areas:

- Increase the high school graduation rate to the top quartile of states by 2010;
- Increase the number of college graduates in key fields, with a target of matching national average degree production rates by 2010; and
- Strengthen workforce training and lifelong learning programs.

Florida voters enacted Constitutional amendments in 2002 that mandated smaller class sizes in primary and secondary school, as well as universal pre-K. Implementing these amendments has led to a heightened focus on pre-K and K-12 education in the State, but also has created additional fiscal pressure and added to the shortage of available teachers.

The 2006 Legislature enacted the A++ Plan to continue the State’s commitment to school reform, with emphasis on accountability, student performance, teacher quality, and reading (see Table 3.6). The 2007 Legislature established and provided \$30 million in funding for career academies in every school district, which must coordinate curriculum with the business community.

Table 3.6 Status of New Cornerstone Talent Recommendations

Recommendation	Status
Increase high school graduation rates and graduate preparedness.	2006 Legislature enacts A++ Plan to continue school reform.
Increase four-year and advance degree production rates in key fields.	University enrollments expanding; more partnerships with community colleges.
Increase education funding.	Class size amendment being implemented; per pupil funding increasing.
Build awareness of importance of education (“Education First” marketing campaign).	Not implemented.
Create annual report on pre-K-20 educational programs.	Not implemented.

Major reforms of the State University System including a greater differentiation of the key research universities have been proposed by multiple groups, but not yet enacted.

What's Next?

- Monitor the impacts of recent legislative changes and new programs.
- Address the shortage of skilled workers in key technical fields through career education and related programs.
- Address the shortage of teachers in key subject areas.
- Continue the State's commitment to K-12 education reform.
- Continue to expand enrollments and completions in postsecondary programs; provide sufficient funding for state universities to carry out their missions.

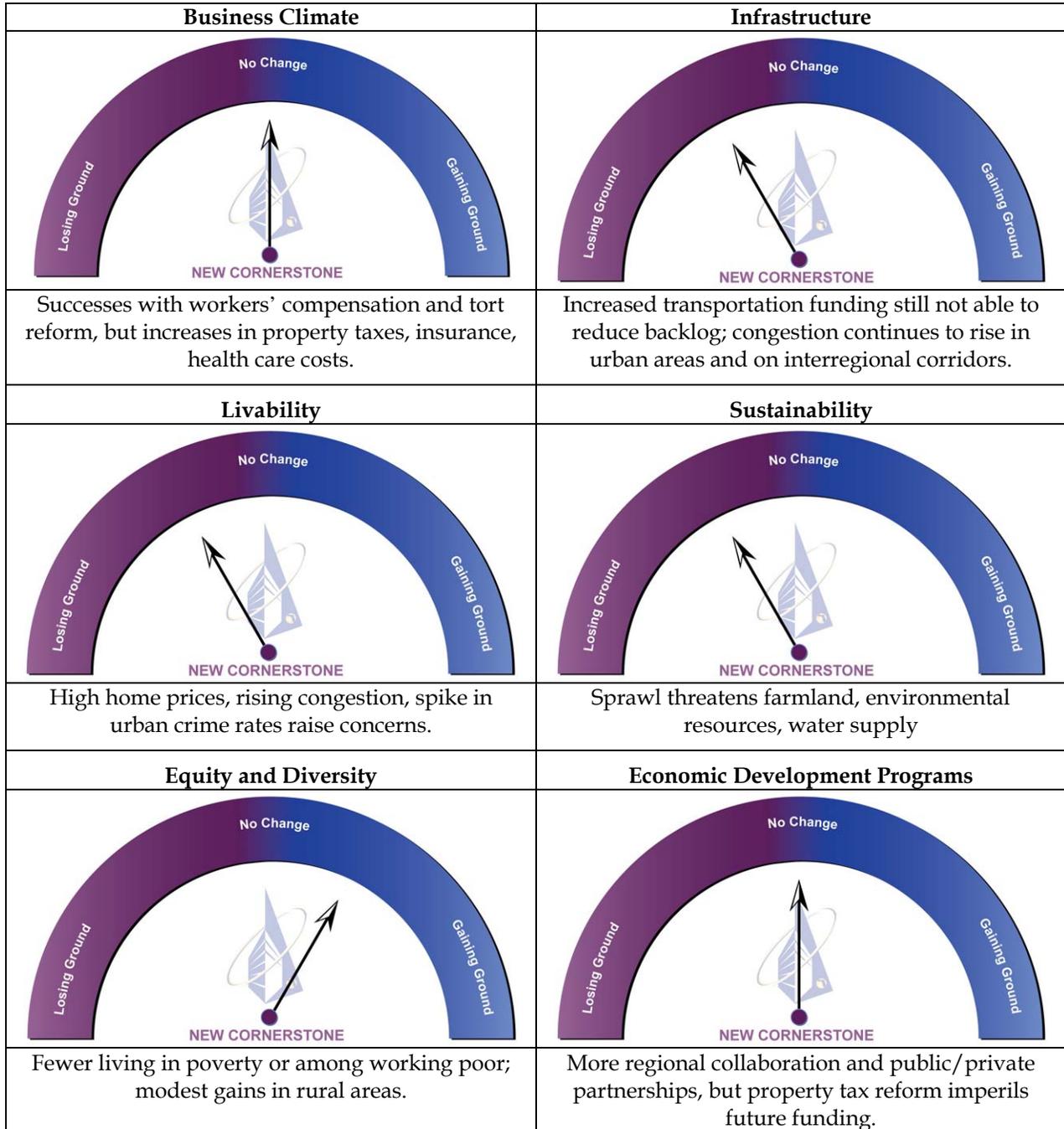
4.0 Florida's Economic Foundations – The Basis for Success?

Highlights

- *Florida's business climate remains strong, but must continue to adapt to meet the challenge of an innovative, global economy. Legislative efforts to reform the State's workers' compensation and tort systems appear to be having a positive impact, but new challenges related to property taxes, insurance, and health care have emerged.*
- *Strong population and economic growth is increasing the burden on Florida's transportation, energy, and water systems. Significant investments will be required to support present needs and future growth.*
- *Cities across the State are reinvesting in the amenities that attract creative workers, visitors, and retirees. But home prices have increased 60 percent over the past three years, adding to the cost of living. And strong population growth and a sprawling development pattern are placing increasing pressure on the livability of Florida's communities and the sustainability of the State's environment.*
- *Fewer Floridians are living in poverty or among the working poor. Despite modest gains, the gap between urban and rural areas remains.*
- *Florida's economic development organizations are sharpening their focus and collaborating across traditional boundaries, creating a foundation for future growth. However, the future of state and local funding for economic development remains in doubt.*

Since *New Cornerstone*, Florida has refocused efforts to strengthen its economic foundations – those supporting systems that create an environment for success in the 4 T's and other economic activities. Significant change in many of these areas will take many years to achieve, but noticeable progress has been made in most areas (see Figure 4.1).

Figure 4.1 Dashboard
Florida's Economic Foundations



■ 4.1 Business Climate

Florida's business climate is one of the strongest in the nation, but remaining competitive is a continued challenge as State's economy grows and changes.

The State's tax structure overall is a strength (see Table 4.1). State and local taxes accounted for 9.7 percent of personal income in 2006, the 12th lowest burden in the nation. The State's lack of a personal income tax keeps the overall tax burden low, but also shifts some of the burden to other sources. Indeed, Florida ranks above the national median in terms of both business taxes and property taxes.

Table 4.1 Business Climate Indicators

Indicator	Level		National Ranking	
	Original (Year)	Current (Year)	Original	Current
<i>Tax and Regulatory</i>				
State and local tax revenues as percent of personal income	9.4% (2000)	9.7% (2006)	9	12
State and local business taxes per dollar of gross state product	3.9% (2002)	4.5% (2006)	30	31
Property taxes as percent of personal income	3.3% (1997)	3.6% (2005)	30	31
State liability system ranking, U.S. Chamber of Commerce			33 (2002)	36 (2007)
Business liability coverage per \$100,000 gross state product	\$315 (2001)	\$334 (2004)	42	42
<i>Business Costs</i>				
Metro office rents index (U.S. = 100)	86.6 (2001)	87.1 (2004)	35	38
Electricity costs (cents) per kilowatt hour	6.91 (2000)	8.77 (2005)	35	37
Workers compensation costs per \$100 of payroll	\$5.58 (1999)	\$6.06 (2005)	49	45
Average unemployment insurance rate paid on all income	0.3% (2002)	0.5% (2005)	8	8
Average annual premium of employer-based healthcare (single adult)	\$2,600 (2000)	\$3,805 (2004)	19	35

Sources: Tax Foundation, Agency for Healthcare Research and Quality, U.S. Department of Health and Human Services, Actuarial, and Technical Solutions, Inc.

Property taxes in particular have spiked in the past few years due to rising real estate prices. The Florida Department of Revenue’s preliminary estimate for 2006 shows that property tax collections increased more than 18 percent statewide, and more than two-thirds of the businesses responding to a Florida Chamber survey anticipate a more than 20 percent increase in 2007. Recently enacted legislative reforms may slow growth in property taxes, but also will put increasing pressure on local government budgets.

Meanwhile, legislative action in 2006 to create a full sales tax exemption for manufacturing machinery and R&D equipment was a major step forward in creating a more entrepreneurial environment in the State (see Table 4.2). Proposals to create an incremental R&D corporate tax credit and repeal the telecommunications services tax have not yet passed.

Table 4.2 Status of New Cornerstone Business Climate Recommendations

Recommendation	Status
Update tax and regulatory policies to reflect dynamic needs of Florida’s economy.	2006 legislation enacts sales tax exemption on manufacturing and R&D equipment, and enacts tort reform, including repeal of joint and several liability. 2007 legislature enacts reforms to property and casualty insurance and property tax systems. Reductions to communications services tax fails to pass in 2007.
Reduce costs of and improve accessibility to health care.	Limited action to date, but no new mandates enacted; state has opened one new medical school and plans to open two more to increase the supply of physicians.
Reduce workers’ compensation costs for Florida businesses.	Reforms enacted in 2003.
Revise process for amending Florida’s constitution.	Initial reforms enacted in 2006, 2007.

The State’s liability system took a major step forward in 2006 with the repeal of joint and several liability. There may be some lag time in terms of the State’s reputation; in the annual survey of corporate attorneys conducted by the U.S. Chamber of Commerce, Florida ranked 36th in 2007, a modest improvement from a low of 42nd in recent years.

Other business costs are increasing in the State. In a composite index of business costs compiled by the Milken Foundation, Florida was the 19th most expensive state for operating a business in 2006.¹ Florida ranks in the bottom quartile (i.e., highest costs) nationwide for a

¹ Milken Institute, *2007 Cost of Doing Business Index*.

wide range of business costs, including workers' compensation costs, electricity costs, industrial and office rental rates, and health care premiums. Workers' compensation costs appear to have stabilized following major reforms in 2003, but health care and energy costs have both experienced sharp increases over the past few years. So too have property and casualty insurance rates following the six major hurricanes that hit the State in 2004 and 2005.

Future actions related to Florida's business climate include the following:

- Monitor impacts of recent reforms to the State's workers' compensation, liability, insurance, and property tax systems; determine if desired outcomes are being achieved; and
- Address the recent surge in health care costs.

■ 4.2 Infrastructure

Florida's infrastructure - transportation, communications, energy, and related systems - historically has been a key driver of the State's growth. These systems are under increasing pressure to accommodate current needs, let alone support future growth.

Florida's transportation system is one of the most diverse and multimodal in the world, including an extensive highway network, 3,000 miles of rail, 14 deepwater ports, 19 commercial service airports, and the nation's largest and most capable spaceport. Existing State policies give higher priority to preserving and maintaining the existing system than to adding new capacity, with the result that Florida's highway and bridge conditions rank among the best in the nation.

The State's transportation system is having increasing difficulty accommodating growth in demand for moving both people and freight (see Table 4.3). The Florida Department of Transportation estimates that delay on the State's major highways is increasing about 6 percent per year. An estimated 34 percent of major urban roads are congested during peak periods, an amount that will only grow in future years. Major airports and seaports also face capacity constraints, while rail and transit offer a competitive choice for moving people or goods only in limited parts of the State.

In 2003, the Legislature created Florida's Strategic Intermodal System (SIS), a statewide high-priority network of major transportation facilities across all modes (see Table 4.4). In 2005, the Legislature allocated an additional \$7.5 billion in funding over 10 years to advance SIS and major regional transportation projects that support growth management goals. The Governor has proposed reallocating some of this funding to general purposes.

Table 4.3 Infrastructure Indicators

Indicator	Level		National Ranking	
	Original (Year)	Current (Year)	Original	Current
<i>Transportation</i>				
Highway deficiency, miles of rough pavement per 1,000 miles of highway	16.5 (2002)	13.4 (2005)	3	3
Bridge deficiency	21.1% (1996)	18.0% (2005)	10	9
Urban mass transit, annual revenue miles per capita	9 (1998)	10.5 (2004)	16	16
Airport enplanements	59.5M (2000)	66.5M (2005)	3	2
Airport cargo pounds handled	9.4M (2000)	10.0M (2005)	5	5
Seaport tons handled	125M (2000)	133M (2004)	5	4
Seaport passengers handled	4.5M	4.8M	1	1
<i>Telecommunications, Energy, and Water</i>				
Broadband, number of high-speed lines per capita		0.15 (2005)		10
Energy consumption, millions of BTUs per person	246 (2000)	256 (2004)	8	6
Water, percent of population served by water systems with reported health violations	3.6% (2000)	4.8% (2005)	15	15

Sources: U.S. Department of Transportation, American, American Public Transportation Association, U.S. Army Corps of Engineers, Federal Communications Commission, U.S. Department of Energy, U.S. Environmental Protection Agency.

Table 4.4 Status of New Cornerstone Infrastructure Recommendations

Recommendation	Status
Improve the efficiency, safety, and security of major trade and tourism corridors and international gateways.	Significant increase in state funding for key transportation hubs and corridors through Florida’s Strategic Intermodal System, but substantial backlogs remain.
Expand personal mobility options in Florida’s urban areas.	Commuter rail and transit system expansions being planned or moving forward in multiple regions.
Expand world-class telecommunications system.	Ongoing investments.
Develop long-term state water and energy policies.	2005 growth management reforms strengthens link between new development and water resources, providing for more comprehensive regional water supply plans; Florida Energy Commission established in 2006 to make recommendations to legislature for a state energy policy; Governor Crist issues executive order to reduce greenhouse gas emissions.

The private sector is increasingly working with the State to develop needed transportation projects, including initiatives to develop new toll roads and to introduce passenger rail service along existing freight rail lines. The private sector also is investing heavily in new energy and telecommunications system to support population and economic growth. Indeed, Florida ranks among the top 10 states for the number of high-speed broadband lines per capita.

Significant infrastructure investments are needed across the board to accommodate existing deficiencies and to support anticipated growth over the next few decades. The Florida Department of Transportation estimates a total unfunded investment need of over \$50 billion across all modes over the next 20 years. The American Society of Civil Engineers (ASCE) 2005 Infrastructure Report Card estimates investment needs of \$3.7 billion in drinking water infrastructure and \$10 billion in wastewater infrastructure over the next 20 years. The ASCE also estimates that 57 percent of Florida's public schools have at least one inadequate building feature and 80 percent have at least one unsatisfactory environmental condition.

Future actions related to Florida's infrastructure include the following:

- Identify additional transportation funding sources (including user fees) to address growing needs and rising costs;
- Protect the State Transportation Trust Fund from future diversions to other uses;
- Continue proactive planning for future statewide transportation corridors; explore the potential for multi-use corridors that include transportation, communications, energy, and water delivery systems; and
- Develop long-term strategies to ensure the availability of energy and water resources.

■ 4.3 Livability and Sustainability

Florida's quality of life has long been a key contributor to its success, helping attract new residents and visitors to the State. Rising costs and the negative impacts of strong population growth are raising questions about whether Florida's communities will remain livable in the future.

Median home prices have surged 60 percent statewide since 2003, with even larger increases in key markets such as Miami. The median home now costs 6.4 times the average annual salary in the State, compared to a 4.6 ratio in 2003 (see Table 4.5). Housing in Florida is now less affordable than it is nationally and increasingly out of reach for essential services workers and other middle-income earners in the State.

Table 4.5 Quality of Life Indicators

Indicator	Level		National Ranking	
	Original (Year)	Current (Year)	Original	Current
Community Livability				
Crime rate per 100,000 population	6,886 (1998)	4,891 (2004)	50	42
Employer health coverage (percent of population)	60.7% (1999)	57.1% (2005)	39	41
Health professional shortage areas (population without primary care within ready economic and geographic reach, per 1,000 residents)	152 (2002)	161 (2006)	36	40
Housing				
Housing affordability – ratio of home prices to average annual wages	4.6 (2000)	6.4 (2005)		
Home ownership rate, percentage of households	68.4% (2000)	72.4% (2005)	35	20
Land Use and Environment				
Air quality – percent of people living in counties that exceed EPA standards	42.2% (1998)	0% (2006)	37	1
Land development – annual percent loss of farmland	-1.9% (1995-2000)	-2.9% (2000-2005)	24	33

Sources: CFED, Global Insight, National Association of Realtors, Federal Bureau of Investigation.

Other costs of living are increasing too. Property tax bills are climbing in response to the higher home prices. Insurance costs are escalating following the six hurricanes over a two-year period. Transportation and energy costs also are rising. The combined effect of these increases appears to be tipping Florida from being a low-cost state to a higher-cost state. The American Chambers of Commerce Researchers Association reports that the cost of living now exceeds the national average in Southeast Florida, Fort Myers, Orlando, and Sarasota, and approaches the national average in most other major cities in the State. At the same time, Florida’s business and living costs remain low compared to other major economies worldwide. Mercer Consulting estimates that the cost of living in South Florida is below that of New York City, Sydney, Singapore, and Hong Kong, and on a par with Sao Paulo and Toronto.²

Florida’s health and wellness remains a concern. Florida ranks among the bottom quartile of states for employer health coverage, access to health professionals, and the number of uninsured low-income children; and among the bottom half of states for infant mortality

² Mercer Consulting, *Worldwide Cost of Living Survey*.

and teen pregnancy. The crime rate has decreased significantly since the late 1990s, but recent reports suggest an uptick in urban areas.

New Cornerstone and other reports emphasized the role of arts, culture, and historic preservation in supporting Florida’s economy, helping advance key initiatives around the State. In particular, urban centers are investing more heavily in arts, culture, and other amenities that help to attract and retain creative workers – particularly those in the highly mobile 25 to 34 age bracket.

In addition, the rapid growth of the past few decades has heightened concerns about the impact of Florida’s growth on its communities and environment. Most growth and development over the past decade has occurred in a sprawling pattern around existing urban areas. This development pattern is consuming available land and encroaching on sensitive environmental resources. This pattern also is overstressing the State’s transportation, education, and water systems. The 2005 growth management legislation introduced a “pay as you grow” approach to more closely link new growth with needed investments in highways, school, and water, with developers paying a proportionate share of the cost of these improvements. This legislation also established incentives for community-based visioning, and created the Century Commission for a Sustainable Florida to develop a 25- and 50-year vision for the future of the State (see Table 4.6).

Table 4.6 Status of New Cornerstone Quality of Life Recommendations

Recommendation	Status
Provide forward-looking “growth leadership” Improve the efficiency, safety, and security of major trade and tourism corridors and international gateways.	2005 legislation reforms growth management laws to adopt “pay as you grow” approach to funding transportation, schools, and water, and to provide incentives for community visioning. Century Commission for a Sustainable Florida created to develop a 50-year vision for Florida. Multiple regional visioning initiatives underway.
Invest in community livability projects with a high economic impact.	Greater attention to value of arts, culture, historic preservation, and public amenities; multiple initiatives underway.
Increase access to and reduce cost of child, health, elder care.	Limited progress on health care reform; 100 cities, towns, and counties participating in “Communities for a Lifetime” initiative.
Develop and retain creative workforce.	Multiple initiatives underway.

Future actions related to Florida’s quality of life include the following:

- Continue shift to forward-looking “growth leadership”: implement 2005 growth management reforms in a balanced manner, complete the Century Commission’s work to develop a sustainable statewide vision, and expand regional visioning for land use, transportation, and conservation;

- Expand attainable housing options and funding for workforce housing programs;
- Reduce health care costs and expand health care coverage; and
- Monitor recent trends in crime rates.

■ 4.4 Equity and Diversity

Can a rising economic tide really lift all boats? Florida’s recent economic expansion has led to a significant reduction in poverty rates (see Table 4.7). The percent of the adult population living below the poverty line decreased from 13.7 percent in 1998 to 11.4 percent in 2005, moving into the top half of states on this measure. The number of working poor also has decreased significantly. Both of these improvements appear to be the result of broad-based economic growth, rather than targeted state programs.

Table 4.7 Equity and Diversity Indicators

Indicator	Level		National Ranking	
	Original (Year)	Current (Year)	Original	Current
Poverty rate (percent of adult population)	13.7% (1998)	11.4% (2005)	32	23
Working poor (percent of working parents earning incomes at or below 150 percent of poverty line)	19.1% (1997-1999)	17.0% (2003-2005)	37	33
Income distribution (ratio of average income of families in the top 20 percent to the bottom 20 percent)	11.2 (1999)	11.3 (2005)	38	34
Rural per capita income as percent of urban per capita income	71% (1999)	70% (2004)		

Sources: Employee Benefit Research Institute, U.S. Census Bureau.

The gap between urban and rural areas in terms of growth and income levels remains, but there are positive signs in some parts of the State. Enterprise Florida has initiated the “Rural Catalyst” project to encourage a collaborative approach to economic development in Florida’s rural areas (see Table 4.8). The project will market one or more sites of regional significance in each of Florida’s Rural Areas of Critical Economic Concern. While a positive step, Florida’s rural areas are particularly at risk from budget cuts related to property tax reform. Meanwhile, a *New Cornerstone* proposal to create a similar program for Florida’s core cities has not moved forward.

Table 4.8 Status of New Cornerstone Equity and Diversity Recommendations

Recommendation	Status
Implement targeted programs in Florida’s Rural Areas of Critical Economic Concern.	Enterprise Florida establishes “Rural Catalyst” program to identify target industries for rural areas and develop catalyst sites with regional benefits.
Implement targeted programs for Florida’s distressed urban areas.	No major changes.
Improve opportunities for the working poor.	No major changes.
Expand access to education and economic literacy programs for all Floridians.	School and university capacity growing.
Continue to promote a diverse workforce.	Leadership Florida’s “Faces of Florida” initiative expanding.

Future actions related to Florida’s quality of life include the following:

- Monitor progress of the rural catalyst project; expand collaboration to address the full range of rural issues;
- Expand targeted programs for distressed urban areas; and
- Continue statewide and regional efforts to promote a diverse workforce.

■ 4.5 Economic Development Programs

Economic development has received greater attention at the state, regional, and local levels over the past few years, leading to a series of major successes. However, financial constraints threaten the ability of state, regional, and local organizations to carry out their key tasks.

Enterprise Florida, the lead economic development agency for the State, is now 14 years old and has earned the respect of the state and national economic development community. As recommended in *New Cornerstone*, Enterprise Florida has strengthened its strategic planning process, with the *Roadmap to Florida’s Future: Strategic Plan for Economic Development* becoming a critical plan for all state agencies and other partners whose activities touch on economic development (see Table 4.9).

Table 4.9 Status of New Cornerstone Economic Development Recommendations

Recommendation	Status
Provide sustained economic leadership.	Increased attention to economic competitiveness through Governor, Legislature, Enterprise Florida, Florida Chamber, other partners; Florida Regional Stewardship Alliance created.
Strengthen statewide strategic planning process.	Enterprise Florida develops and updates <i>Roadmap to Florida's Future: Florida's Strategic Plan for Economic Development</i> .
Strengthen Enterprise Florida as state's principal economic development organization.	Initial refinements to Enterprise Florida structure and partnerships; targeted funding for innovation activities.
Strengthen regional economic development partnerships.	Continued growth of regional economic development partnerships; prototype regional visioning effort in Central Florida, with plans for similar efforts in other regions; enhanced rural collaboration through Rural Catalyst program; potential need for greater focus on business expansion and retention, as well as creation.
Enhance performance measurement and accountability.	Annual indicators update by Enterprise Florida; 2007 <i>New Cornerstone Revisited</i> .
Provide focused, reliable funding for economic development.	No dedicated funding source identified for Enterprise Florida or regional and local economic development organizations.

The \$12.5 million appropriation for Enterprise Florida’s operations in fiscal year 2008 continues to be complemented by significant appropriations to fund other key economic development initiatives and tools in Florida. These include the Quick Action Closing Fund (\$45 million), an instrumental tool similar to those used in other states to secure extraordinary business expansion opportunities, and two major appropriations to encourage the growth of high-technology industries in Florida – the Innovation Incentive (\$250 million incentive to attract world-class research centers to Florida) and the Centers of Excellence program (\$100 million to support research in key growth fields in Florida). The Florida Opportunity Fund created in 2007 to provide early stage capital to promising companies will fill an important gap in Enterprise Florida’s portfolio.

Combined, the State-led economic development initiatives (excludes state-led efforts such as Visit Florida to promote tourism) are expected to reach \$450 million in fiscal year 2008. Florida’s economic development apparatus has helped make the State more nimble in responding to opportunities and has shown success in meeting the initial goals, established in 1993 for Enterprise Florida, to help diversify the economy and make the State more successful as it competes for major projects. This high level of investment should continue if the State is to meet its long-term economic goals.

The shift toward greater regional collaboration on economic development has continued, reflecting the realities of the market as well as the need for greater efficiencies in service delivery. Virtually every urban region of the State now has a regional economic development partnership, which may range from an informal coalition of county and city organizations that participate in joint marketing activities to a more formal regional organization that leads marketing and deal-making for the entire region. The Rural Areas of Critical Economic Concern are enhancing existing regional partnerships to support implementation of the Rural Catalyst projects.

Regional economic development organizations are increasingly playing roles in important public policy issues, such as the strong leadership shown by the Tampa Bay Partnership on regional transportation needs. Other regional organizations are key partners in long-term visioning efforts, led by the innovative “How Shall We Grow?” project to create a 50-year vision for a seven-county region in Central Florida. The Florida Chamber Foundation has partnered with regional coalitions from around the State to create the Florida Regional Stewardship Alliance and sponsor regional leadership academies.

The local economic development organization, particularly at the county level, remains the touchpoint for most economic development projects in the State. Local economic development organizations have a wide range of leadership and financial capacity, but all are being challenged by the need to manage and fund a growing range of programs, particularly in nontraditional areas such as entrepreneurial support.

New Cornerstone identified the need to provide reliable and focused funding for economic development organizations at the state, regional, and local levels, preferably through a dedicated source. No progress has been made on implementing such a source over the past three years, but the need appears even greater, with many organizations facing potential reductions in general fund appropriations due to property tax reforms.

5.0 Conclusions

■ 5.1 Findings and Recommendations

The bottom line: Florida's public and private leaders must remain steadfast in their commitment to *New Cornerstone's* recommendations to diversify Florida's economy and strengthen the State's economic foundations. Good progress has been made in the past three years, but significant challenges remain. At stake are the State's most vital current and future interests: the growth and competitiveness of its economy; the quality of life for its citizens; and the livability and sustainability of its communities.

Florida's economic performance over the past few years confirms the need to keep on track with the *New Cornerstone* vision, goals, and strategies. Key priorities for continued action include the following:

- Continue the emphasis on economic diversification and innovation. The State at long last appears to be making progress with raising wages and income levels and creating high-quality jobs. We need to implement and evaluate the effectiveness of the new tools created by the Governor and Legislature over the past few years; pursue immediate opportunities in emerging industries related to the life sciences, aerospace, alternative energy, environment solutions, optics, and photonics, among others; and continue to expand the State's overall research and entrepreneurial capacity.
- Continue to position Florida as a global leader in the commerce of goods, services, investment, and information. We need to position the State to take advantage of the widening of the Panama Canal, increasing ties with Asian markets, and the potential reopening of Cuba; encourage all Florida businesses to take full advantage of international market opportunities; attract more foreign direct investment in Florida businesses; and relieve immigration bottlenecks, capacity constraints, and other factors that may be impeding the flow of visitors and goods through the State's seaports and airports.
- Continue the strong emphasis on workforce, education, and human resource development that been underway over the past decade, recognizing the long-term effort involved in affecting change here.
- Continue to update the State's tax and regulatory structure to meet changing economic needs.
- Monitor major structural changes that have emerged in Florida in recent years and how they affect Florida's economic positioning relative to other states and countries. Of particular significance is Florida's transition to becoming a higher cost state and its effects on demographics, business growth, and industry competitiveness.

- Expand upon the recommendations of *New Cornerstone* regarding ensuring sustainable growth, recognizing that this will be a long-term challenge for the State. This strategy should address the link between economic development and land use, transportation, housing, environment, energy, and water, among other issues.

■ 5.2 Next Steps

The Florida Chamber Foundation will work with partners to implement the following actions:

- Distribute the *New Cornerstone Revisited* report and related data and indicators to statewide, regional, and local organizations with an interest in the future of Florida's economy.
- Reconvene these partners to revisit roles and responsibilities for implementing the *New Cornerstone* recommendations.
- Work toward development of a statewide indicators system and data warehouse that would provide a core set of indicators and associated data to track statewide and regional initiatives, building on the *New Cornerstone* structure. This could be a joint effort with the Century Commission and the Florida Indicators Network.
- Sponsor targeted research consistent with the *New Cornerstone* agenda. Key research projects may include the following:
 - Continue to track emerging trends identified in this report, especially related to population and costs;
 - Develop and track indicators for community livability and environmental sustainability, including the impacts of these assets on overall economic growth;
 - Expand indicators on the innovation economy to better understand impacts of potential policies and tools; and
 - Expand and update indicators of global competitiveness.
- Explore how to expand the horizon of *New Cornerstone* beyond 2010 to provide input to statewide and regional visioning activities.
- Continue a strong regional emphasis by convening or participate in regional forums to share results of this update, and working with regional partnerships on long-term regional growth visioning and economic development planning.