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Update on CEDR's Data Center

By Jamal Semlali, Graduate Assistant, Center for Economic Development Research (CEDR)

Center for Economic Development (CEDR) updated its website, which can be viewed at http://cedr.coba.usf.edu/, to reflect the constantly changing technology and business environment. We redesigned the entire website consistent with the University of South Florida's College of Business Administration layout. In addition, we implemented a login system for users of the site. A user creates a profile including a username and password to access the reports of CEDR's Research Projects. The registration is a one-time event at no charge and takes less than a minute to accomplish. To register, go to http://cedr.coba.usf.edu/newuser.asp. A user's profile includes name, email and zip code. The purpose of this registration is so that we know who is accessing our reports. To make CEDR's site more user-friendly, links have been provided so that users may request specific information and request help throughout the website. CEDR's staff will be checking the request box daily.

CEDR's Data Center is a facility for self-service, on-line queries of economic and demographic datasets. You can access the Data Center by going to http://cedr.coba.usf.edu/data.html and selecting "Query CEDR Databases." There you will see a list of the available databases. We provide instructions for selecting a database and pasting the data into a spreadsheet on your computer. Three national cost / price indices are available: Consumer Price Index, Producer Price Index, and Employment Cost Index.

Ten datasets with metrics for each of Florida's sixty-seven counties (metro-areas are also included in some of the datasets) are available:

- **Cost of Living.** This dataset provides relative costs of living for Florida's counties and is released annually by the Florida Department of Education. The average cost of living in a given year is set at 100% and a Florida county's relative cost of living is expressed as a percentage of the average.

- **Education Indicators.** The Education Indicators series has five measures: average class size; drop out rates; graduation rates; per-pupil expenditures and SAT scores. The data is obtained from the Florida Department of Education for each of Florida's counties.

- **ES202.** This data set is a Bureau of Labor Statistics (BLS) sponsored collection of job and wage data from all employers participating in Florida's unemployment insurance program. Statewide or county data is available for each month of a particular quarter, or annual averages can be obtained.

- **Gross and Taxable Sales.** This data originates from the Florida Department of Revenue. Monthly gross sales and taxable sales, denominated in nominal dollars, are available, by county, and by category.

- **Housing Permits.** The Manufacturing and Construction Division, Bureau of the Census distributes this dataset of construction authorized by building permits. The data is organized by county or MSA for each month of a year.

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CEDR Staff

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Nolan Kimball……...Coordinator of Information/Publications
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From the Editor…

This issue of *The Tampa Bay Economy* starts with an "Update on CEDR's Data Center." Jamal Semlali joined CEDR as a graduate assistant in June 2006 with the primary task of making improvements to CEDR's website. In this article he highlights the new and exciting changes to the website which can be viewed at **http://cedr.coba.usf.edu**

The article "Inflation in Tampa Bay" is an analysis using the Consumer Price Index (CPI) to measure the level of inflation in the Tampa Bay region and comparing it to other regions in the U.S.

Another article "USF's Basic Economic Development Course" highlights the 29th USF Basic Economic Development Course (BEDC), which was held during the week of April 23 – 28, 2006. Contact information regarding the upcoming 30th USF Basic Economic Development Course is included.

Dennis G. Colie, Ph.D, Director of CEDR, and Richard M. Trottier, Principal of Sundial Partners, Inc. co-authored the article "Middle Market Firms." This article establishes the demographics of the private capital markets.

We conclude this issue with the article "Investment Capital in Florida." This article updates the *Florida Technology Development Index,* which was originally published by CEDR in October 2003.

Norman Blake, a former CEDR graduate research assistant, wrote the articles, "Inflation in Tampa Bay" and "Investment Capital in Florida for this issue. Mr. Blake graduated from the USF MBA program in Spring 2006 and is working in Atlanta.

To help us make the journal add even more value to Tampa Bay's economic development community, we ask readers to send their comments to **cedr_tbe@coba.usf.edu** with the subject line "Journal Comments."

- **LAUS.** The Bureau of Labor Statistics (BLS) through its Local Area Unemployment Statistics (LAUS) program gathers this monthly data that describes labor force participation, employment, unemployment, and unemployment rate by place of residence.

- **Unemployment Claims.** The Florida Agency for Workforce Innovation's Labor Market Statistics Department issues the initial Unemployment Claims report monthly.

- **Personal Income, Per Capita (Personal) Income, and Population.** The Regional Economic Information System (REIS) of the Bureau of Economic Analysis (BEA) releases these three datasets annually. The BEA defines Personal Income as the current income received by persons from all sources (including investment income and transfer payments) minus their personal contributions for social insurance. Per Capita Income is Personal Income divided by Population.

Upcoming improvements to CEDR's site will continue our focus on the user and the ease at which each user can access and download data. We will periodically update these datasets when new data becomes available to CEDR.

In the near future, users of CEDR's databases will notice that the format and appearance of the "Query CEDR Databases" main page will be changed to be consistent with the entire CEDR website. In addition, a print option will be added to each query result window. Each query result window will also have instructions on how to copy and paste the data into a spreadsheet. Having the print option simultaneously with the copy and paste instructions in the result window will enhance user flexibility.

We continually look for ways to make CEDR's Data Center a more valuable resource, particularly for supporting Florida's economic development practitioners. If you do not find the data you want in the self-service Data Center, you can contact CEDR to request specific data. In most cases we have the data or can direct you to a source for your data need. Please contact us at http://cedr.coba.usf.edu/contact.asp. Your comments or suggested improvements for the Data Center are always welcome.

Inflation in Tampa Bay

By Norman Blake, Graduate Research Assistant, Center for Economic Development Research (CEDR)

Inflation is usually defined as a general increase in the overall level of prices. For this article, we used the data from the Consumer Price Index (CPI) as measured by the Bureau of Labor Statistics (BLS) to measure the level of inflation in Tampa Bay. The BLS defines the CPI as a measure of the average change in prices over time of goods and services purchased by households.

Unanticipated inflation can be disastrous for individuals with low wages and on fixed incomes, such as retirees and the disabled. Inflation reduces their purchasing power and consequently, their standard of living. Given Tampa Bay's present and growing number of retirees, inflation is an important concern to a large segment of the local population.

We begin by investigating and comparing inflation in Tampa Bay to inflation in the United States. We also compare Tampa Bay's average inflation over the past 10 years with inflation in selected southern MSAs. We further examine the CPI, by disaggregating this measurement and charting the most relevant data to Tampa Bay's residents. In conclusion, we compared the growth in median hourly incomes, to growth of the CPI, and proposed some explanations for the inflation in Tampa Bay.

Chart 1 on page 5, shows inflation for the Tampa-St. Petersburg-Clearwater MSA (Tampa Bay) as compared to inflation for the entire Untied States over the past 10 years. The average annual inflation rate for Tampa Bay over the past 10 years was 2.64%, while during the same period the average annual inflation rate for the entire United States was 2.53%.

Adding a linear trend line to both measures shows an upward incline in the general rate of inflation for the past 10 years. The trend line also highlights the fact that Tampa Bay's marginal increase in the inflation rate at .14% is higher than the nation's at .05%.

The steeper inclination of the inflation trend line for Tampa Bay could be attributed to the higher than average population growth Tampa Bay has seen in the past 15 years. Based on estimates from the U.S. Census Bureau and projections from CEDR's 2006 Economic Market Report (see http://cedr.coba.usf.edu/projects/TBMR_2006.pdf), from 1990 to 1995, population grew an average of 1.25% per year for the United States and 5.56% per year for Tampa Bay.

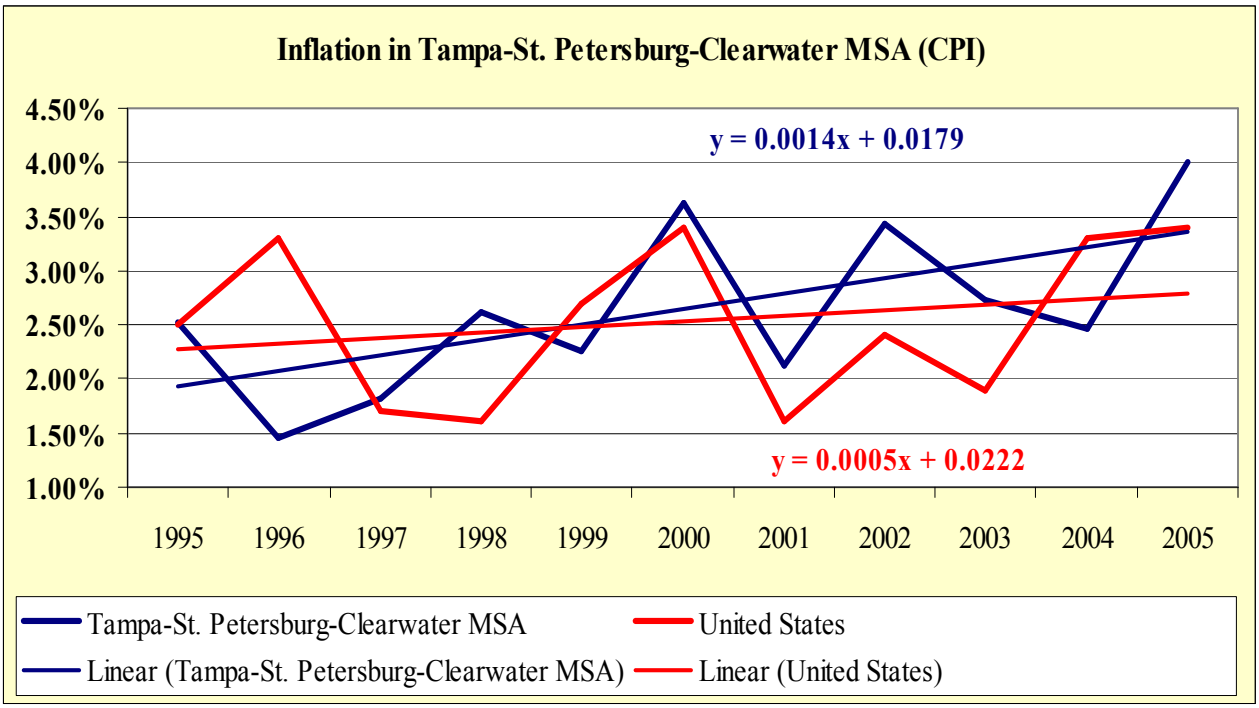
There is a natural increase in the demand for goods and services following increases in population. This increase in population possibly induced a form of "demand pull inflation", in which the aggregate demand for goods by the new and existing residents to Tampa Bay temporarily outstrips suppliers' ability to react to the market. The net results are higher prices to end consumers until the general equilibrium is reinstated.

Chart 2 on page 5, compares the average annual inflation rate for Tampa-St. Petersburg-Clearwater MSA against the Atlanta MSA, Dallas-Fort Worth MSA, Miami-Fort Lauderdale MSA and the United States.

While inflation in the United States averaged 2.53% over the past 10 years, both of Florida's largest MSA's averaged higher levels of inflation. The Miami-Fort Lauderdale MSA's (2.79%) inflation rate averaged .26% per year higher than the United States, while the Tampa-St. Petersburg-Clearwater MSA's (2.64%) inflation rate averaged .11% per year higher than the entire United States.

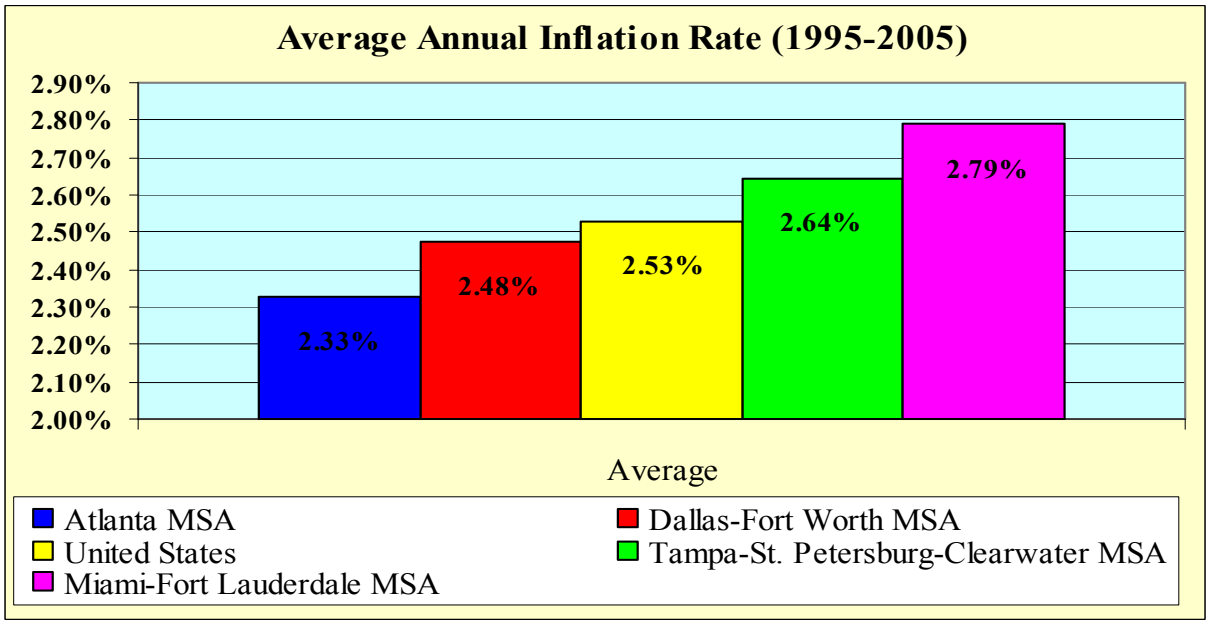
Table 1 on page 6, explains some of the above average growth in the CPI for the Tampa-St. Petersburg-Clearwater MSA. The intrinsic compilation method of the CPI creates an index or beginning price level for each MSA. Changes in the index are reported as inflation. Due to a smaller index figure for the Tampa-St. Petersburg-Clearwater MSA, small increases yield large results in inflation. Thus Tampa-St. Petersburg-Clearwater MSA is experiencing higher inflation, but on average, the

Chart 1



Sources: http://www.bls.gov/cpi/home.htm#overview

Chart 2



Sources: http://www.bls.gov/cpi/home.htm#overview

Table 1

Average Index Level Over 10 Years (1995–2005)				
Metropolitan Statistical Area	Atlanta MSA	Miami-Fort Lauderdale MSA	Dallas-Fort Worth MSA	**Tampa-St. Petersburg-Clearwater MSA**
Average	169.97	169.15	164.10	**146.40**

Sources: http://www.bls.gov/cpi/home.htm#overview

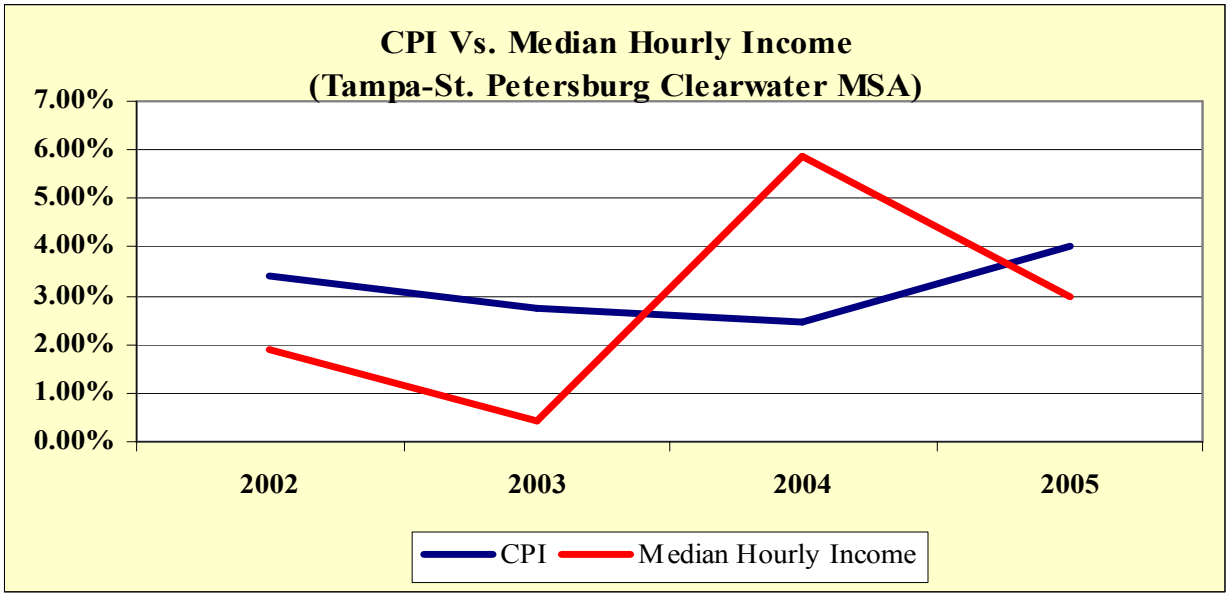
For most labor force participants, raising inflation justifies expectations of increases in compensation. Unfortunately, the reality diverges from expectations as highlighted in **Chart 3**. Chart 3 compares the changes in the CPI for the Tampa-St. Petersburg-Clearwater MSA to the changes in median hourly income.

Of the four years in question, inflation grew faster than median hourly income in three of the four. On average, increases in consumer prices have outstripped increases in the median hourly incomes for workers in Tampa Bay.

Table 2 on page 7 disaggregates and compares selected components of the broader CPI from 2002 to 2005. The table shows on average, growth of median hourly income has lagged increases in the prices of all the commodities in question.

Home prices, based on the Office of Federal Housing Enterprise Oversight's (OFHEO) house price index, have had the fastest increases, averaging 15.80% over the past three years. The OFHEO house price index is a geometric weighted average based on more than 26.5 million repeat transactions (purchase or refinance) over 29 years and 12,000 transactions annually.

Chart 3



Sources: http://www.bls.gov/cpi/home.htm#overview
Sources: http://www.bls.gov/oes/current/oessrcma.htm

Table 2

Average Annual Inflation Tampa-St. Petersburg-Clearwater MSA (2002-2005)						
Components	Food	Rents	Medical Care	Gasoline	Home Prices	**Median Hourly Income**
Average	3.08%	3.35%	4.27%	14.08%	15.80%	**2.79%**

Sources: http://www.bls.gov/cpi/home.htm#overview
Sources: http://www.ofheo.gov/HPIMSA.asp

Chart 4 on page 8, continues on the path created by Chart 3 and Table 4 by further disaggregating the CPI. Chart 4 graphically compares changes in median hourly incomes, cost of medical care, rents and food.

The year 2003 proved to be the upward inflection point for median hourly incomes, rents and medical care. Yet the general rise in median hourly income in 2004 was not sufficient to compensate for the lag in income growth in 2002, 2003 and 2005. From 2002 to 2005, annual average growth of median hourly income lagged behind growth of medical care prices by 1.50%, rents by .56% and food prices by .29%.

Chart 5 on page 8, compares changes in median hourly income to changes in home prices and gasoline. The chart shows the dramatic run-up in the prices of both homes and gasoline in the past four years.

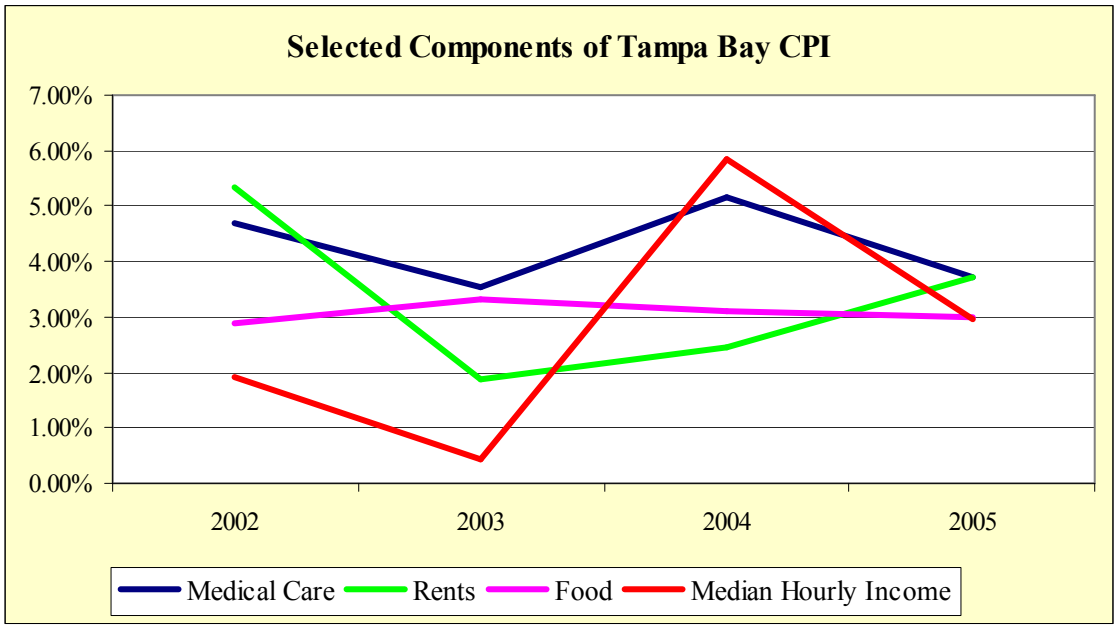
Charts 4 and 5 show that price growth of the two main residential accounts, i.e. housing prices and rents, continue to outpace growth of median hourly income. These accounts have had a polarizing effect on overall CPI. In fact, inflation in Tampa Bay is possibly being underestimated due to a methodological anomaly in how the BLS computes the CPI.

The BLS uses the rents and owner equivalent rents accounts as the chief representative of housing costs in the CPI computation, thus barring the effects of rising home prices from the CPI. This lowered CPI government entities. Non-home owners are then faced with rising rents, home prices and a slow adjustment of incomes.

Conclusion

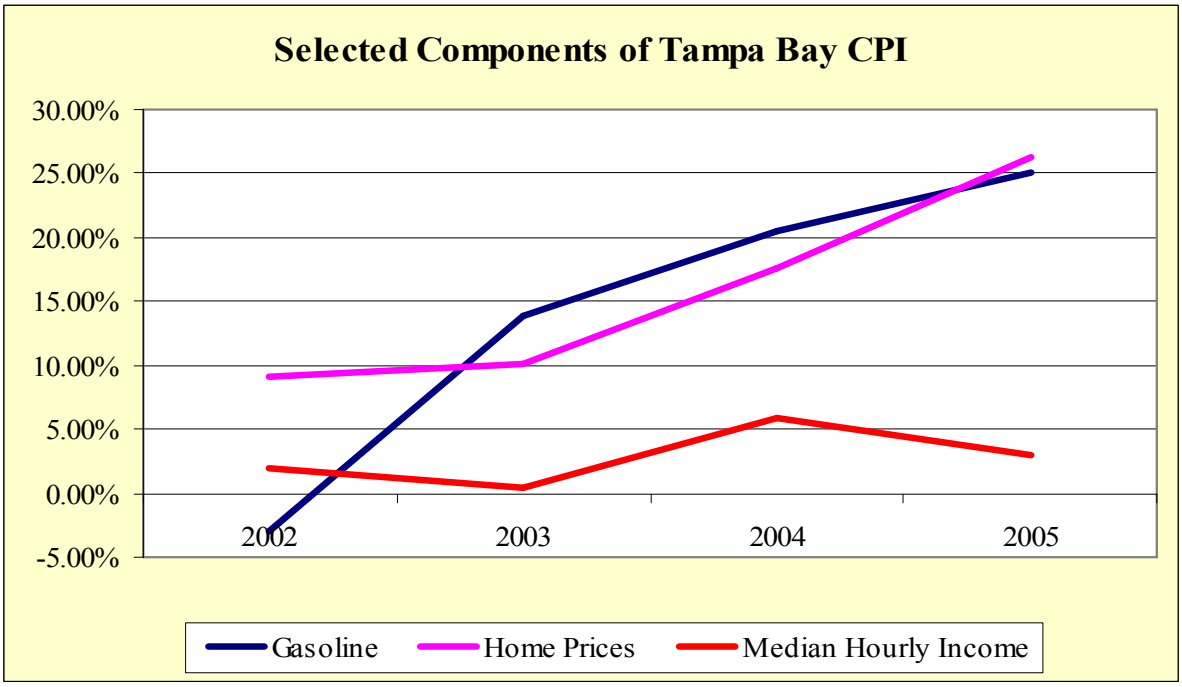
Inflation is generally seen as a negative side effect of consumer spending, but it is also reflective of a vibrant economic expansion. In the case of Tampa Bay, inflation is a result of these and other factors. Continued influx of retirees and middle aged workers are improving the Tampa Bay labor pool and increasing local aggregated demand. Lower price levels, producing greater variances in the inflation data and methodological differences have combined to create the local inflation picture. As the prospects for future economic growth in Tampa Bay remain bright, so does the requirement for residents and policy makers to remain vigilant and aware of the potential inflation threats.

Chart 4



Sources: http://www.bls.gov/cpi/home.htm#overview

Chart 5



Sources: http://www.bls.gov/cpi/home.htm#overview
Sources: http://www.ofheo.gov/HPIMSA.asp

USF's Basic Economic Development Course

By Nolan Kimball, Coordinator of Information/Publications, Center for Economic Development Research (CEDR)

The 29th USF Basic Economic Development Course (BEDC) was conducted during the week of April 23 – 28, 2006. The 29th BEDC was directed by the Center for Economic Development Research (CEDR), a unit of the College of Business Administration at the University of South Florida (USF), and is accredited by the International Economic Development Council (IEDC). The BEDC is the first step for anyone planning to become certified in the economic development field.

The 29th BEDC was held at the DoubleTree Guest Suites of Tampa Bay in Tampa, Florida. Fifty students from seven states successfully completed this course. The Course Director was Dennis G. Colie, Director of CEDR. The Course Coordinator was Nolan Kimball, Coordinator of Information / Publications for CEDR. Carol Sumner, CEDR's Research Assistant, also assisted with the course.

The Course Director received valuable input from the Advisory Committee, whose members are economic development practitioners. The Advisory Committee members for the 29th BEDC were:

- **Beatriz Bare**, Director of Corporate Recruitment and Expansion, Greater Tampa Chamber of Commerce, Committee of One Hundred
- **Ted Clem, CEcD**, 2005 Chair of the Florida Economic Development Council, (ex officio)
- **Michael McHugh**, Director – Hernando County Office of Business Development
- **Michele Miller**, Director of Contract Compliance & Administration, Enterprise Florida, Inc.
- **Bob Rohrlack, Jr., CED**, Senior Vice President of Business Retention & Recruitment, Enterprise Florida, Inc.
- **Mary Jane Stanley, CEcD**, President/CEO, Pasco Economic Development Council

CEDR structured the 29th USF Basic Economic Development Course around the core topics established by the IEDC. Those topics are Business Retention & Expansion, Strategic Planning, Marketing/Attraction, Economic Development Finance, Small Business and Entrepreneurship Development, Community / Neighborhood Development, Real Estate Development and Reuse, and Workforce Development. Field trips also highlighted urban redevelopment and environmental issues in economic development.

Seven of the 18 presenters at this course are IEDC members. The Florida Economic Development Council (FEDC) sponsored the Opening Night Dinner. Progress Energy provided four scholarships for qualified participants. The Mosaic Company served a luncheon buffet during the environmental field trip.

The 30th USF Basic Economic Development Course is scheduled for November 12 – 17, 2006. For further information on the upcoming course, contact Ms. Nolan Kimball at (813) 905-5854 or nkimball@coba.usf.edu

Middle Market Firms

By Dennis G. Colie, Ph.D., Director, Center for Economic Development Research (CEDR), and Richard M. Trottier, Principal, Sundial Partners, Inc.

Private capital markets are unique.[1] That is, they do not conform to the same principles of finance as markets in which the debt and equity of large firms are publicly traded. Likewise, middle market private companies are capitalized, valued, bought and sold differently than small businesses.

The purpose of this brief article is to establish the demographics of the private capital markets by asking the following questions. How many middle market firms are there in the U.S.? What is the distribution of these firms by industry? Is the mid-market growing? What is its impact on the economy?

The term "middle market companies" refers to a capital market divided into three parts: small businesses, middle market companies, and large companies. We delineate the divisions of the capital market according to annual sales receipts. Small businesses have receipts of less than $5 million. The middle market ranges between $5 million and $500 million. Large firms have annual receipts exceeding $500 million.

In practice, the divisions of the capital market are segmented by many factors other than the receipt size. They are separated by investor return expectation, access to and cost of capital and different mechanisms and institutions. Each market segment requires a different theory. However, all subsequent analysis rests on understanding market demographics.

The term "Private Capital Markets Theory" applies to the financing of middle market companies and is of special interest to Sundial Partners, Inc. (Sundial), who commissioned CEDR to gather data about middle market demographics. Sundial is a private investment banking firm whose principals focus on the strategic and financial needs of middle market companies.

CEDR obtained data from the U.S. Census Bureau's Statistics of U.S. Businesses (SUSB) Program. The sources of the data are 1997 and 2002 County Business Patterns and the 1997 and 2002 Economic Censuses. County Business Patterns is an annual measurement of wage and salary employment by establishments, which are detailed at the industry level. County Business Patterns are formed by data extracted from the Census Bureau's Standard Statistical Establishment List (SSEL), the annual Company Organization Survey, and other records including those of the IRS and Social Security Administration. Whereas the Census Bureau publishes County Business Patterns once a year, the Bureau performs the Economic Census once every five years. (The SUSB Program based on the 2002 Economic Census was released to the public in mid-2005.) The Economic Census measures firms, establishments, employees, sales receipts, and other measures of output and investment. The Census Bureau's method of data gathering is a comprehensive survey of all known establishments by industry.

There are issues when comparing the 1997 results with those from 2002. In 1997 the Census Bureau categorized firms according to the Standard Industrial Classification (SIC) system. However, by 2002 the North American Industrial Classification System (NAICS) replaced the SIC system. The bridge from SIC to NAICS is ambiguous. While this change in industrial classification systems does not effect our reporting of the total number of firms by receipt size, it does impact our ability to compare the distribution of middle market firms in 1997 and 2002. We do, however, attempt to distribute firms by broad industry sector as accurately as the data will allow.

The Census Bureau estimates that in 1997 there were 5,541,918 firms with employees in the U.S. In 2002 the Bureau estimates that there were 5,697,759 firms with employees, an increase of 2.8%. In **Table 1** on page 11, we report our estimates of the number of middle market firms in 1997 and 2002 and their distribution by industry division.

Table 1

Distribution of Middle Market Firms

Division	1997	2002	
Ag. Services, Forrestry, Fishing	1,048	798	
Mining	2,034	1,945	
Construction	25,860	32,760	
Manufacturing	45,775	43,250	
Transportation, Comm., Utilities	11,271	15,809	Note: In 2002 NAICS sectors 48-49, 22 & 51
Wholesale	76,629	66,585	
Retail	46,153	52,272	
Finance, Insurance, Real Estate	22,058	23,282	Note: In 2002 NAICS sectors 52 & 53
Services	52,488	80,515	Note: In 2002 NAICS sectors 54, 56, 61, 62, 71, 72 & 81
Mgmt of Companies & Enterprises		16,333	NAICS 55
Auxiliaries		3,958	NAICS 95
Totals	283,316	337,507	
Non-profits	8,652	5985	
Revised Totals	274,664	331,522	

For 1997 we estimate that 274,664 (4.96%) of the 5,541,918 firms were middle market companies.[2] The plurality of middle market firms had sales receipts in the $7.5 million to $25 million range. Fewer than 10,000 firms had receipts over $100 million but less than $500 million.

In 2002, we estimate that 331,522 (5.82%) of the 5,697,759 firms were middle market companies.[3] The revenue ranges used in the 1997 and 2002 data sets differ. But our consistent observation is that a plurality of middle market firms has annual sales at the lower end of the definitional range of $5 million to $500 million. Only 11,612 firms had receipts over $100 million but less than $500 million.

In spite of technical difficulties, certain trends are visible. They illustrate the direction of change in middle market industries. They show that the Service industry division is the largest and fastest growing segment of the middle market. Construction is the second fastest growing and the second largest mid-market industry division. The three growing divisions are Service, Construction and Retail, which together account for about half of all middle market firms in 2002. The Manufacturing and Wholesale divisions experienced a decline in the number of firms. Together they represented about one-third of all mid-market firms in 2002.

Middle market companies operate in most industries, although they are more heavily weighted in certain industries. The five industries represented in **Table 2** on page 12 account for about 83% of all middle market companies. The market is growing despite the fact that one-third of its firms are in declining industries. Trends in these five industries affect the companies within them and the mid-market as a whole.

The middle market represents less than one percent of all US businesses, but employs 39 million people, over a third of the workforce. Despite its small numbers, the middle market is no small part of the US economy. Our analysis indicates that it grew by 20.70% (from 274,664 firms to 331,522 firms) between 1997 and 2002, while total firms increased by 2.8%.

Table 2

Trends in Middle Market Firms

Division	1997	2002	Growth	% of Middle Market in 2002
Service	52,488	80,515	53.4%	24.29%
Construction	25,860	32,885	27.2%	9.92%
Retail	46,158	52,272	13.2%	15.77%
Manufacturing	45,775	43,250	-5.5%	13.05%
Wholesale	76,629	66,585	-13.1%	20.08%
Totals	246,910	275,507	11.6%	83.10%

Middle market receipts grew from $6.029 trillion in 1997 to $6.895 trillion in 2002, a 14.37% increase in nominal dollars. Mid-market receipts are approximately 32% of total business receipts of $22.063 trillion. They are more than double small business receipts of $3.134 trillion.

This research adds to a fuller understanding of the demographics of the middle market and the distribution by industry division of the firms served by the middle market financial institutions and service providers. It will serve as a base for a forthcoming book to be titled "Winning the Middle Market" by Richard M. Trottier of Sundial Partners.

Endnote:

[1] Slee, Robert T., "Private Capital Markets," published by John Wiley & Sons, Inc., Hoboken, New Jersey, 2004, page 1.

[2] When arriving at our estimate, we eliminated firms in selected industries that we believe are principally composed of non-profit firms. Non-profit firms do not fit our definition of businesses financed by the mid-level capital market. If the non-profits were not excluded, we estimate that 283,316 (5.11%) of the nation's 5,541,918 firms in 1997 were middle market firms.

[3] See rationale in note above. Most of the non-profit firms are in the Services industry sector. Examples of non-profits in the Service sector are schools and colleges, and religious / civic /professional associations. If the non-profits were not excluded, we estimate that 331,522 (5.82%) of the nation's 5,541,918 firms in 1997 were middle market firms.

Investment Capital in Florida

By Norman Blake, Graduate Research Assistant, Center for Economic Development Research (CEDR)

The purpose of this article is to update the *Florida Technology Development Index*, which CEDR originally promulgated in October 2003. Here we complete the update of the portion of the index titled "Investment Capital in Florida."

Investment capital is equity or debt financing provided by external investors, corporations or government backed institutions for new, growing or struggling businesses. Investment capital is an important fuel for economic growth and key to the creation and expansion of new Florida businesses and technologies.

To complete the innovation to market chain, venture capital (VC) spending and small business loans are required. VC is the capital, which originates from private investors, who usually purchase equity stakes in new venture formations. These investors provide the funding mechanism needed to commercialize ideas on a drawing board to products or services in the marketplace. Additionally, investment capital aids in the diffusion of knowledge and management expertise. During the financing process it brings together entrepreneurs, who contribute ideas, human capital and effort, while private investors, corporate syndicates and credit consultants contribute their experience, expertise and capital resources.

The economic impact of investment capital spending cannot be overstated. In a paper by Samuel Kortum and Josh Lerner of Boston University and Harvard Business School, they found venture/investment capital spending accounts for up to 15% of industrial innovations.[1]

The critical nature of investment capital in nurturing vibrant, successful entrepreneurial ventures requires us to examine investment capital spending in Florida. For this report, we disaggregated investment capital by funding sources. The funding sources are VC, commercial loans and Small Business Investment Company (SBIC) loans and grants.

Table 1 on page 14 highlights VC spending in Florida, and VC spending as a proportion of the Gross State Product (GSP). While GSP has been growing at approximately 6.21% per year (1997-2004), VC spending in the state has been declining by approximately 5.25% per year (1997-2005). The fastest decline in VC spending occurred from 2001 to 2003 when spending contracted an average of 47.88% per year. This decline in spending coincided with a mild slowdown in the growth of Florida's GSP. From 2001 to 2003 Florida's GSP grew an average of 5.61% while in the three previous years GSP growth averaged 6.30%. While total dollar amounts have rebounded from its lows in 2003, VC spending is still 85.92% down from its heights in 2000.

Chart 1 on page 14 illustrates VC spending in Florida as a percentage of state GSP. From 1997 to 2000 VC spending averaged 0.30% of Florida's GSP. During this period VC spending had its greatest proportion to GSP. In 1999 and 2000 VC's spending as a portion of GSP was 0.40% and 0.55% respectively. From it's height in 2000 (0.55%), VC spending as a proportion of GSP declined 0.50% to a low of 0.05% in 2004.

Table 2 on page 15 compares the growth rate of the NASDAQ Composite Index with VC growth rate in Florida.[2] Similar to the NASDAQ Composite Index, VC spending in Florida fell after 2000. Even as the NASDAQ Composite Index rebounded in 2003, VC spending in Florida continued to slide. This ended in 2004 with a modest increase in VC spending.

We display the growth rates of Florida's GSP and VC spending in **Chart 2** on page 15. From 1998 to 1999 VC spending accelerated 207.52%, but declined by 64.61% in 2001, 55.83% in 2002 and 23.19% in 2003. During the same period GSP growth consistently stayed above 5%.

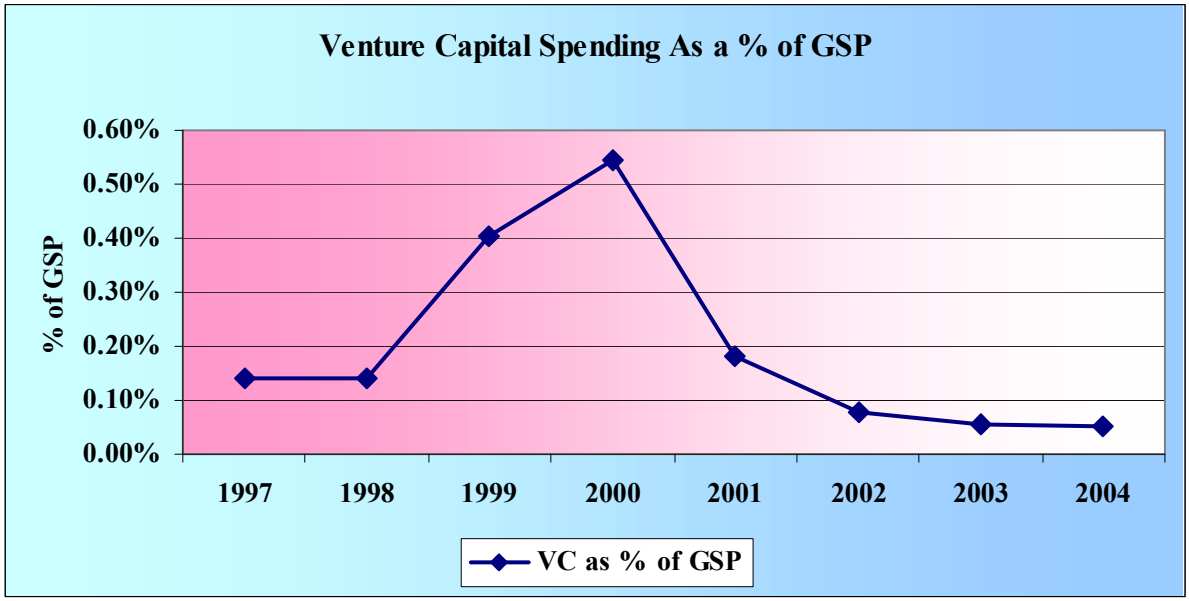
Table 1

VENTURE CAPITAL SPENDING IN FLORIDA (in Nominal Millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	Intrinsic Growth Rate
VC Funds	$555.9	$578.3	$1,778.4	$2,565.3	$907.8	$401.0	$308.0	$318.1	$361.2	**(1997 - 2005) -5.25%**
GSP	**$391,451**	**$416,225**	**$442,476**	**$470,120**	**$496,861**	**$522,340**	**$553,709**	**$599,068**	**N/A**	**(1997 - 2004) 6.21%**
VC as % of GSP	**0.14%**	**0.14%**	**0.40%**	**0.55%**	**0.18%**	**0.08%**	**0.06%**	**0.05%**	**N/A**	
VC Growth Rate %		4.03%	207.52%	44.25%	**-64.61%**	**-55.83%**	**-23.19%**	3.28%	13.55%	
GSP Growth Rate %		6.33%	6.31%	6.25%	5.69%	5.13%	6.01%	8.19%	N/A	

Source: Compiled by CEDR from Thompson Financial Securities & Pricewaterhousecoopers/ Venture Economics/NVCA
http://www.ventureeconomics.com/vec/stats/2005q4/state_FL.html
U.S. Department of Commerce, Bureau of Economic Analysis, Regional Accounts Data
Available at http://www.bea.gov/bea/regional/gsp/

Chart 1



Source: Compiled by CEDR from Thompson Financial Securities & PricewaterhouseCoopers/ Venture Economics /NVCA, http://www.ventureeconomics.com/vec/stats/2005q4/state_FL.html
U.S. Department of Commerce, Bureau of Economic Analysis, Regional Accounts Data, http://www.bea.gov/bea/regional/gsp/

Additionally we compared the growth of Florida's GSP and state VC spending to the NASDAQ Composite Index. From 1997 to 2005 the rise and subsequent fall of VC spending in Florida coincides with the overall rise and fall of the NASDAQ Composite Index. A statistical comparison of the growth rates of the NASDAQ and VC spending in Florida from 1997 to 2005 shows an 83% correlation.

Table 3 on page 16 details the growth of VC spending in Florida, Arizona, North Carolina and Texas. In addition, Table 3 also includes a summary indicator for VC spending. The Summary Indicator Capital is the amount of statewide VC invested per dollar of GSP. In the state of Texas from 1997 to 2004, VC spending as a portion of GSP averaged 0.30% of state GSP. During the same period in Florida, the average was 0.20%. From 1997 to 2004, in the three state comparisons, Florida (0.20%) ranked third in the VC spending as a portion of Gross Domestic Product (GDP). Over the same period Texas (0.30%) ranked first, North Carolina (0.23%) ranked second and Arizona (0.16%) fourth. Without any drastic increases or decreases in Florida's GSP, we foresee it remaining in third place in 2005.

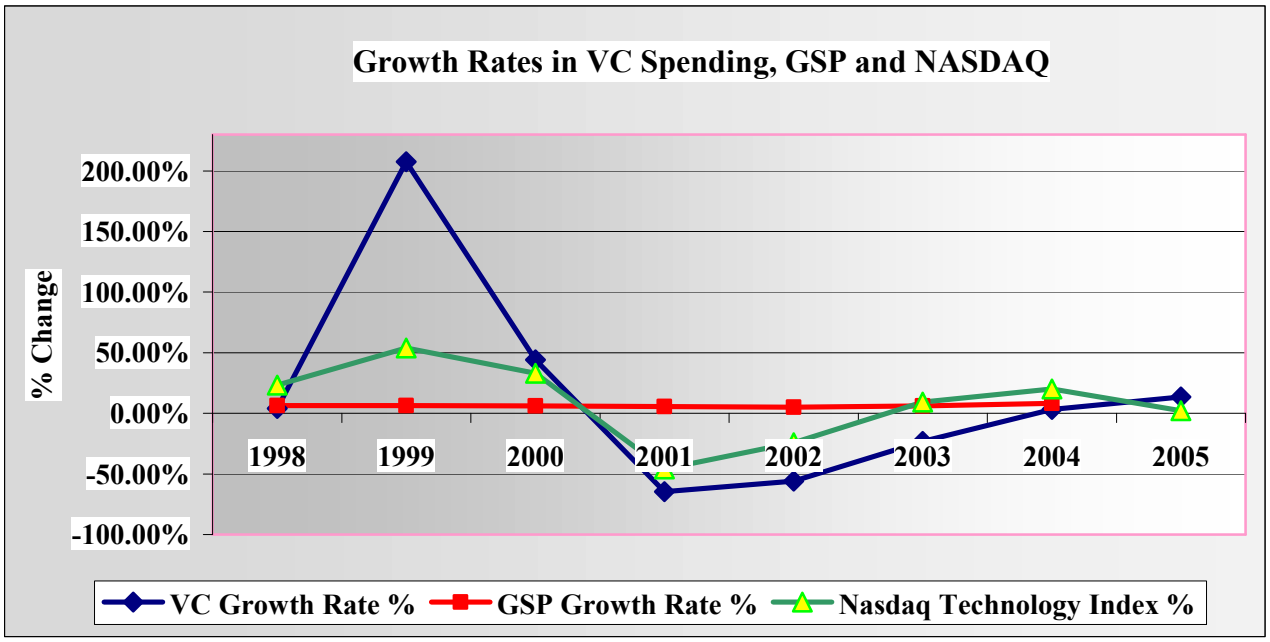
Table 2

GROWTH RATES OF NASDAQ AND VENTURE CAPITAL SPENDING IN FLORIDA

	1998	1999	2000	2001	2002	2003	2004	2005
VC Spending Growth Rate %	4.03%	207.52%	44.25%	**-64.61%**	**-55.83%**	**-23.19%**	3.28%	13.55%
NASDAQ Composite Index	23.25%	53.82%	33.10%	**-45.97%**	**-24.18%**	9.18%	20.11%	2.24%

Source: Compiled by CEDR from Thompson Financial Securities & PricewaterhouseCoopers/ Venture Economics/NVCA
http://www.ventureeconomics.com/vec/stats/2005q4/state_FL.html
Finance.Yahoo.com

Chart 2



Source: Compiled by CEDR from Thompson Financial Securities & PricewaterhouseCoopers/ Venture Economics/NVCA, http://www.ventureeconomics.com/vec/stats/2005q4/state_FL.html
U.S. Department of Commerce, Bureau of Economic Analysis, Regional Accounts Data, http://www.bea.gov/bea/regional/gsp/
Finance.Yahoo.com

Table 3

SUMMARY INDICATORS for INVESTMENT CAPITAL

1997

State	Venture Capital	Number of Firms	Avg. Spent per Firm	Summary Indicator
Florida	**$555,900,000**	**61**	**$9,113,115**	**0.14%**
Arizona	$158,400,000	25	$6,336,000	0.12%
North Carolina	$254,000,000	64	$3,968,750	0.11%
Texas	$824,500,000	130	$6,342,308	0.14%

1998

State	Venture Capital	Number of Firms	Avg. Spent per Firm	Summary Indicator
Florida	**$578,300,000**	**55**	**$10,514,545**	**0.14%**
Arizona	$205,900,000	25	$8,236,000	0.15%
North Carolina	$332,700,000	67	$4,965,672	0.14%
Texas	$1,123,200,000	137	$8,198,540	0.18%

1999

State	Venture Capital	Number of Firms	Avg. Spent per Firm	Summary Indicator
Florida	**$1,778,400,000**	**99**	**$17,963,636**	**0.40%**
Arizona	$369,400,000	42	$8,795,238	0.25%
North Carolina	$783,200,000	84	$9,323,810	0.30%
Texas	$2,733,900,000	232	$11,784,052	0.41%

2000

State	Venture Capital	Number of Firms	Avg. Spent per Firm	Summary Indicator
Florida	**$2,565,300,000**	**138**	**$18,589,130**	**0.55%**
Arizona	$668,700,000	56	$11,941,071	0.42%
North Carolina	$1,862,300,000	128	$14,549,219	0.68%
Texas	$5,995,900,000	365	$16,427,123	0.83%

2001

State	Venture Capital	Number of Firms	Avg. Spent per Firm	Summary Indicator
Florida	**$907,800,000**	**97**	**$9,358,763**	**0.18%**
Arizona	$192,100,000	27	$7,114,815	0.12%
North Carolina	$629,900,000	78	$8,075,641	0.22%
Texas	$2,834,400,000	245	$11,568,980	0.38%

2002

State	Venture Capital	Number of Firms	Avg. Spent per Firm	Summary Indicator
Florida	**$401,000,000**	**47**	**$8,531,915**	**0.08%**
Arizona	$204,800,000	24	$8,533,333	0.12%
North Carolina	$585,600,000	73	$8,021,918	0.19%
Texas	$1,262,700,000	136	$9,284,559	0.16%

2003

State	Venture Capital	Number of Firms	Avg. Spent per Firm	Summary Indicator
Florida	**$308,000,000**	**49**	**$6,285,714**	**0.06%**
Arizona	$69,800,000	15	$4,653,333	0.04%
North Carolina	$361,000,000	58	$6,224,138	0.11%
Texas	$1,162,300,000	135	$8,609,630	0.14%

2004

State	Venture Capital	Number of Firms	Avg. Spent per Firm	Summary Indicator
Florida	**$318,100,000**	**47**	**$6,768,085**	**0.05%**
Arizona	$74,300,000	11	$6,754,545	0.04%
North Carolina	$325,400,000	44	$7,395,455	0.10%
Texas	$1,030,100,000	126	$8,175,397	0.12%

2005

State	Venture Capital	Number of Firms	Avg. Spent per Firm	Summary Indicator
Florida	**$361,200,000**	**51**	**$7,082,353**	**N/A**
Arizona	$148,000,000	21	$7,047,619	**N/A**
North Carolina	$507,500,000	49	$10,357,143	**N/A**
Texas	$1,068,900,000	136	$7,859,559	**N/A**

Source: See endnote 3

Chart 3 shows the variations of the Summary Indicator from 1997 to 2004. The rise in the indicator mirrors the rise and fall of the NASDAQ Composite Index from 1998 to 2004. From 2000 to 2001 the summary indicator for all four states decreased an average of 63.71%.

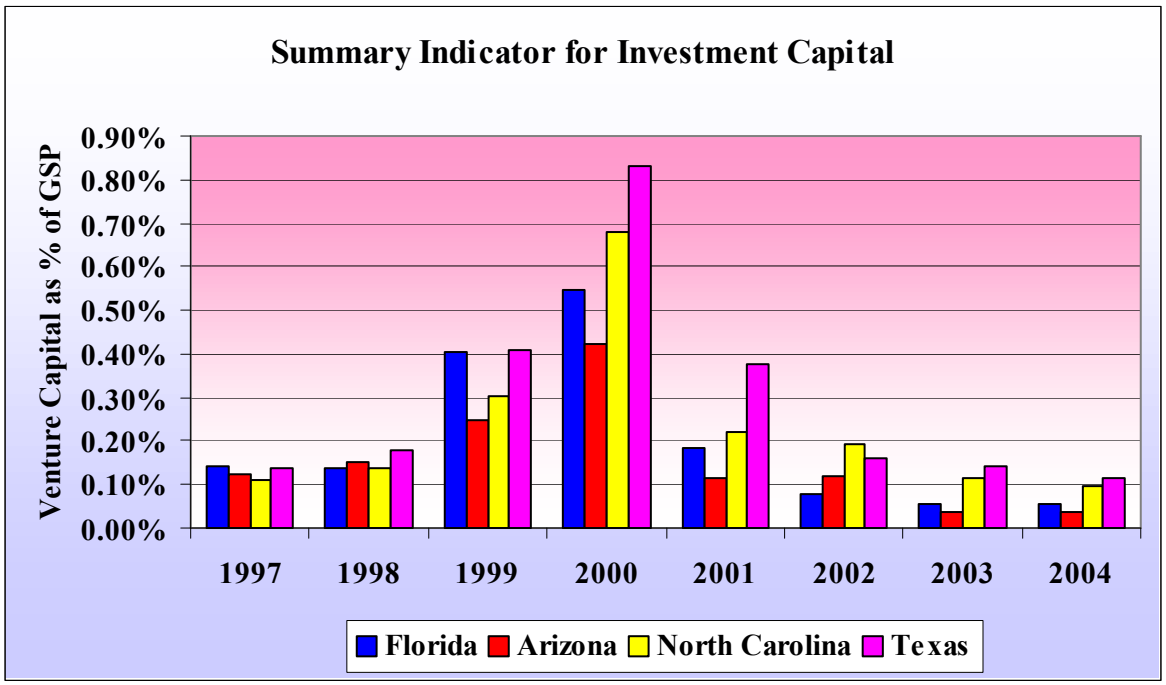
Table 4 on page 18, reports the percentage of commercial loans and leases relative to the total outstanding loans and leases. The percentage of the commercial banking system's total loans and leases going to businesses is a reflection of the capital availability and support of the private sector of the economy.

From 1998 to 2000, these loans averaged 31.22% for North Carolina, 28.55% for Texas, 19.41% for Florida and 12.70% for Arizona. Unlike VC spending, commercial loans and leases showed a slow decline in the percentage of commercial loans and leases outstanding relative to all outstanding loans. From 2000 to 2001 commercial loans and leases as a percentage of outstanding loans fell an average of 15.61%, compared to VC spending, which declined an average of 62.95% over the same period. In Florida from 2001 to 2004 commercial loans and leases as a percentage of outstanding loans fell an average of 8.07%, while VC spending fell an average of 35.09%.

Regulations and due diligence by lending institutions can restrict the availability of loans for high-risk start up ventures. During the technology expansion of the late 90's, VC firms filled this seed capital financing void. During the contraction of the technology sector in 2000 and 2001, venture capitalist restricted their lending to less risky start-ups, while lending institutions generally maintained their prudent financial postures.

Chart 4 on page 18, compares the percentage of commercial loans and leases outstanding relative to all outstanding loans in Florida, Arizona, North Carolina and Texas.

Chart 3



Source: Compiled by CEDR from Thompson Financial Securities & PricewaterhouseCoopers/ Venture Economics/NVCA, http://www.ventureeconomics.com/vec/stats/2005q4/state_FL.html
U.S. Department of Commerce, Bureau of Economic Analysis, Regional Accounts Data, http://www.bea.gov/bea/regional/gsp/

Table 4

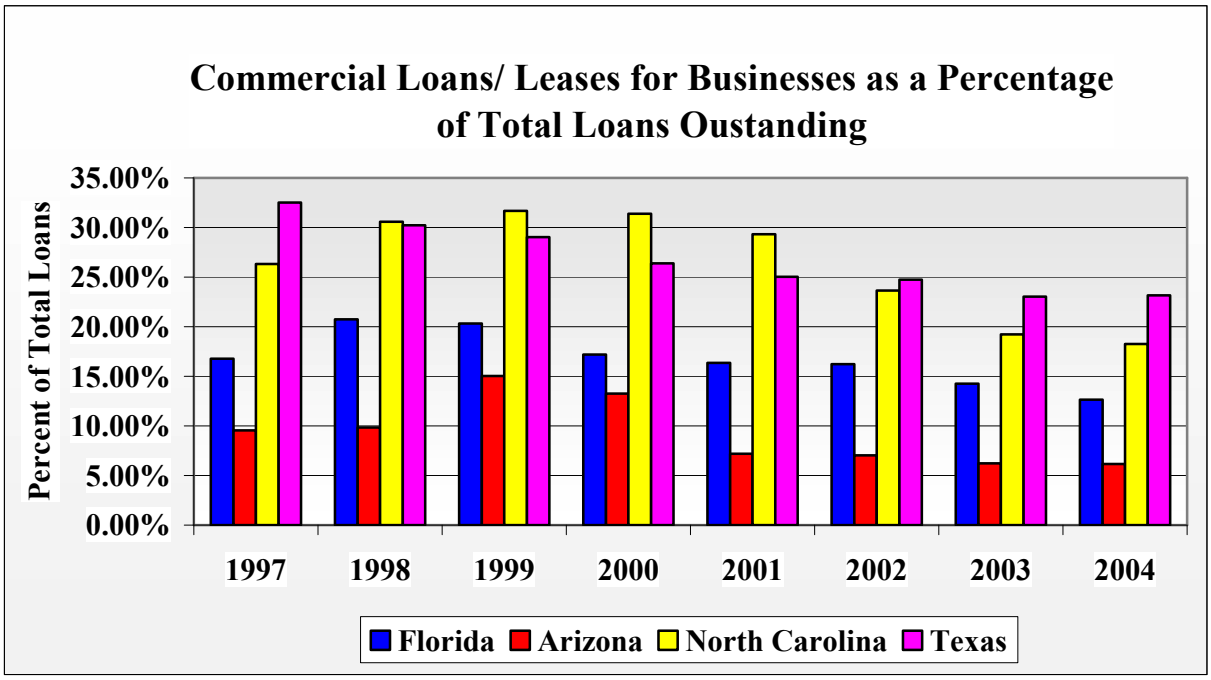
COMMERCIAL LOANS/ LEASES for BUSINESS

As a percent of total loans and lease balances outstanding

State	1997	1998	1999	2000	2001	2002	2003	2004
Florida	**16.79%**	**20.73%**	**20.33%**	**17.18%**	**16.35%**	**16.21%**	**14.25%**	**12.64%**
Arizona	9.55%	9.83%	15.02%	13.26%	7.19%	7.02%	6.22%	6.18%
North Carolina	26.34%	30.58%	31.69%	31.40%	29.32%	23.64%	19.24%	18.25%
Texas	32.53%	30.22%	29.04%	26.39%	25.02%	24.75%	23.03%	23.17%

Source: Compiled by CEDR from FDIC, Historical Statistics, Commercial Bank CB 11
http://www2.fdic.gov/hsob/SelectRpt.asp?EntryTyp=10

Chart 4



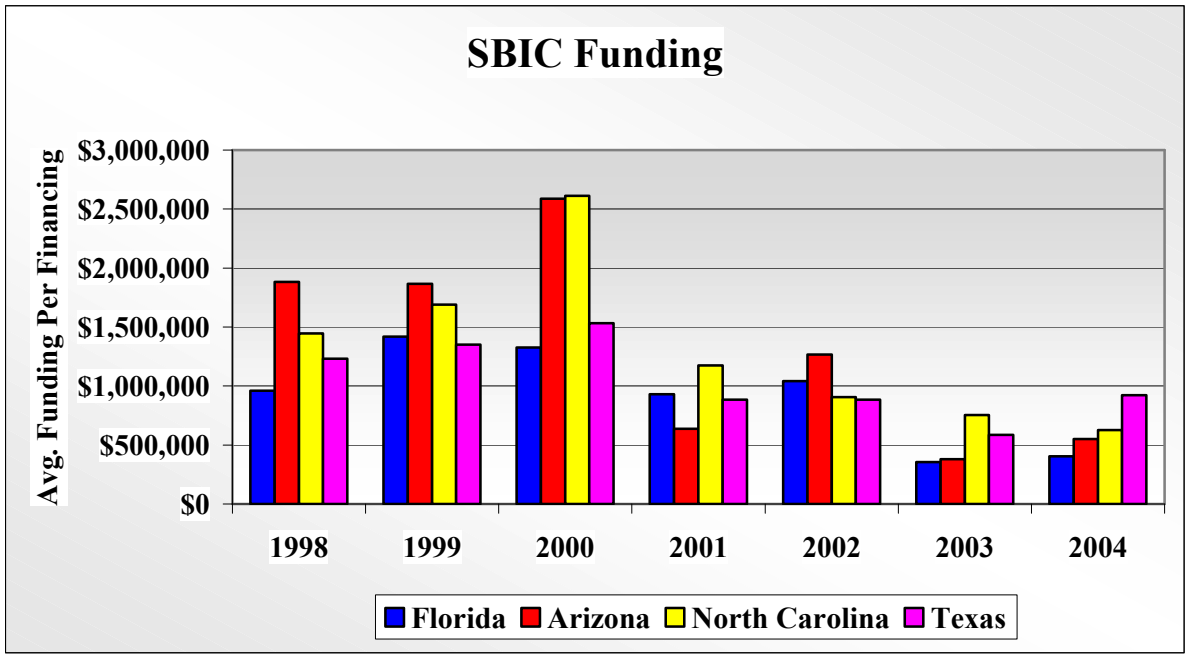
Source: Compiled by CEDR from FDIC, Historical Statistics, Commercial Bank CB 11,
http://www2.fdic.gov/hsob/SelectRpt.asp?EntryTyp=10

The Small Business Administration (SBA) was officially established in 1953 by the United States Congress to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns."[4] The SBA also makes loans directly to businesses and acts as a guarantor on bank loans. The Small Business Investment Company (SBIC) Program, under SBA license, regulates and helps to provide funds for privately owned and operated VC investment firms. They specialize in providing long-term debt and equity investments to high-risk small businesses. SBIC also makes loans to victims of natural disasters, works to get government procurement contracts for small businesses, and assists businesses with management, technical, and training issues.

Table 5 on page 20 reports SBIC funding for 1998 through 2004. It also provides information on the average financial package for a project.

Chart 5 shows the average funding per SBIC project from 1998 to 2004. During the late 90's both Arizona and North Carolina had higher average funding per project. This was primarily a result of the large number of funded projects in Florida and Texas. In the three-year period, from 1997 to 2000, Florida and Texas averaged 326 projects funded, while Arizona and North Carolina averaged 74 projects funded. This is similar to the period 2001 to 2004, where Arizona and North Carolina averaged 121 projects funded, while Florida and Texas averaged 371 projects funded.

Chart 5



Source: Compiled by CEDR from the United States Small Business Administration
SBA Program Financing by State,
(1999-2003) http://www.sba.gov/INV/stat/2004.html
(2004) http://www.sba.gov/INV/tables/2002/stats/allsbic9.pdf

Table 5
SBIC FUNDING

Panel A - Federal Government's Fiscal Year 1998

State	# Of Financings	Total Financing	Avg. Spent per Financing
Florida	**76**	**$72,927,331**	**$959,570**
Arizona	29	$54,571,098	$1,881,762
North Carolina	42	$60,766,894	$1,446,831
Texas	221	$272,193,762	$1,231,646

Panel B - Federal Government's Fiscal Year 1999

State	# Of Financings	Total Financing	Avg. Spent per Financing
Florida	**105**	**$149,081,381**	**$1,419,823**
Arizona	26	$48,486,673	$1,864,872
North Carolina	49	$82,738,140	$1,688,533
Texas	216	$291,603,250	$1,350,015

Panel C - Federal Government's Fiscal Year 2000

State	# Of Financings	Total Financing	Avg. Spent per Financing
Florida	**124**	**$164,532,562**	**$1,326,876**
Arizona	36	$93,204,769	$2,589,021
North Carolina	40	$104,490,375	$2,612,259
Texas	238	$364,990,595	$1,533,574

Panel D - Federal Government's Fiscal Year 2001

State	# Of Financings	Total Financing	Avg. Spent per Financing
Florida	**125**	**$116,306,742**	**$930,454**
Arizona	79	$50,324,551	$637,020
North Carolina	79	$92,752,471	$1,174,082
Texas	228	$201,758,054	$884,904

Panel E - Federal Government's Fiscal Year 2002

State	# Of Financings	Total Financing	Avg. Spent per Financing
Florida	**101**	**$105,084,107**	**$1,040,437**
Arizona	46	$58,326,557	$1,267,969
North Carolina	63	$57,026,844	$905,188
Texas	252	$222,844,305	$884,303

Panel F - Federal Government's Fiscal Year 2003

State	# Of Financings	Total Financing	Avg. Spent per Financing
Florida	**181**	**$64,186,516**	**$354,622**
Arizona	43	$16,370,496	$380,709
North Carolina	63	$47,439,374	$753,006
Texas	223	$130,923,164	$587,099

Panel G - Federal Government's Fiscal Year 2004

State	# Of Financings	Total Financing	Avg. Spent per Financing
Florida	**126**	**$50,761,621**	**$402,870**
Arizona	53	$29,235,389	$551,611
North Carolina	61	$38,282,741	$627,586
Texas	249	$229,932,391	$923,423

Source: Compiled by CEDR from the United States Small Business Administration
SBA Program Financing by State
(1999-2003) http://www.sba.gov/INV/stat/2004.html
(2004) http://www.sba.gov/INV/tables/2002/stats/allsbic9.pdf

Conclusion

Like the benchmark states, investment capital in Florida mushroomed during the late 90's. The collapse of the market as measured by the NASDAQ Composite Index in 2000 and the subsequent recession led to a sharp contraction in investment capital. Since then Florida's investment capital has been on the recovery. VC spending has picked up, showing increases of 13.55% from 2004 to 2005, while the average spent per financing project has increased by 13.60% from 2003 to 2004. Even with these positive indications Florida has need for improvement. VC spending as a percentage of GSP is at its lowest level in 7 years, while the average number of firms financed by VC has average 49 over the past three years. This is in comparison to North Carolina (56) and Texas (133). Initiatives such as corporate memberships in venture capital organizations, state sponsorships of new venture formations and technology studies at universities may help to close the state's investment capital funding gap.

Endnote:

[1] Samuel Kortum and Josh Lerner "Does Venture Capital Spur Innovation?" NBER Working Paper No. 6846, Dec 1998. Republished: Rand Journal of Economics, 2000, v31 (4,Winter). National Bureau of Economic Research (NBER). See - http://papers.nber.org/papers/w6846

[2] NASDAQ (National Association of Securities Dealers Automated Quotations) NASDAQ Technology Index is a U.S. electronic stock exchange which usually trades technology and technology related companies. See - http://en.wikipedia.org/wiki/NASDAQ

[3] Compiled by CEDR from Thompson Financial Securities & PricewaterhouseCoopers/Venture Economics/NVCA http://www.ventureeconomics.com/vec/stats/2005q4/state_FL.html
U.S. Department of Commerce, Bureau of Economic Analysis, Regional Accounts Data. Available at http://www.bea.gov/bea/regional/gsp/

[4] Small Business Administration
Overview and History of the SBA
See – http://www.sba.gov/aboutsba/history.html