



Hertz: \$85M tax break recipient admits financial statements unreliable

By William Patrick
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TALLAHASSEE, Fla. — A new financial disclosure casts a dark shadow over a deal that sent \$85 million in tax incentives, including \$19 million in upfront cash, from Florida's public coffers to a Fortune 500 company.

RELIABLE?: Hertz CEO Mark Frissora, Florida Gov. Rick Scott, and Lee County Commission Chairman Larry Kiker break ground on the new location of Hertz's Estero, Fla., corporate headquarters.

Hertz Corp., best known as a rental car giant, of Friday [filed a five-page document with the U.S. Securities and Exchange Commission](#) stating its past three years of financial statements are riddled with errors and unreliable.

According to the filing, an internal audit concluded, "The financial statements for 2011 should no longer be relied upon, and Hertz must restate them. Hertz also needs to correct the 2012 and 2013 financial statements to reflect these errors."

"There's clearly something deeper going on than we've seen," Maryann Keller, an auto industry consultant and former director of Dollar Thrifty Automotive Group Inc., which Hertz acquired in 2012, [told Bloomberg News](#).

"We have no idea what we're dealing with here, no idea what this company's financial condition is, what the past level of profitability is, and no basis on which to judge what its future profitability may be," said Keller.

The company's stock price fell more about 12 percent between Friday afternoon when the accounting issues became public and the close of the stock market Monday, with a further slide in afterhours trading.

During part of the period in question, [Hertz and Gov. Rick Scott's administration](#) were negotiating in secret, due to exemptions in public records laws relating to economic development. In exchange for the \$85 million in tax giveaways, Hertz committed to relocate its corporate headquarters from New Jersey to the small town of Estero, 25 miles outside of Naples.

The deal was announced in May 2013, and was based upon Hertz's economic health and the promise of 700 jobs, as well as other items. Scott called the deal "a huge win for Florida families."

Watchdog.org contacted Hertz for comment, but was told in an email by Richard Broome, executive vice president of corporate affairs and communications, the company wasn't able to respond beyond the text of the Form 8-K.

"The incentives made our relocation possible because it is necessary to offset our costs to make this work over the long term," [Broome told Watchdog.org last year when the deal was announced.](#)

"Broadly, what you see with tax incentives deals is that businesses, even businesses that already know where they want to relocate, go and ask states and localities for tax incentives," Nicole Kaeding, a budget analyst for the Cato Institute, told Watchdog.org.

"From their perspective, it doesn't hurt to ask," she said. "The worst that a state can tell them is 'no.' But they never hear 'no.'"

Florida has a superior tax environment compared to New Jersey. The Sunshine State also is a huge tourism and car rental market, raising questions at the time as to whether the incentive package was necessary.

In 2012, Hertz Global Holdings Inc. reported a record year in revenue and income before taxes, according to the company's erroneous annual investor report. Hertz also acquired Dollar Thrifty for \$2.3 billion.

"As the world's largest airport car rental brand, it's a perfect fit to locate our headquarters in Florida, a global tourism epicenter," said Mark Frissora, Hertz chairman and CEO, in a press statement.

Enterprise Florida Inc., the state's chief economic development agency, told Watchdog.org in an email the agency "remains pleased" Hertz selected Florida for its new corporate headquarters.

Sean Helton, director of strategic communications for EFI, said Florida's economic incentive programs are transparent, performance based and include clawback provisions.

"Companies must create jobs, invest capital, and pay state taxes prior to receiving any approved incentive funding or tax rebates," he said.

It's not uncommon for incentive deals to backfire and leave taxpayers exposed to risk. In 2009, former Gov. Charlie Crist directed a \$20 million tax incentive package to Digital Domain, a visual effects and digital production company. [In 2012, the company shut down its Port St. Lucie office.](#)

Hertz's accounting problems first appeared when the firm delayed its 2014 first quarter financial statement. Friday's disclosure states that major errors were discovered during its preparation, and additional inaccuracies were found during further review.

Auditors cited errors in the capitalization and timing of depreciation of non-vehicle assets, and uncollectible accounts both domestically and abroad, as well as other items.