

Research Report

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State Incentives for Employment of Floridians with Disabilities Should Promote Competition

There appears to be an existing conflict between the intent of the Florida public policy that seeks to infuse higher levels of competition and privatization in the delivery of state services and the operationalization of another state policy that seeks to establish incentives for the employment of people with disabilities. In addition, the latter policy has benefited only a minute portion of the target population and has had unintended consequences such as unnecessary bureaucracy and sizeable overhead costs. Therefore, Florida TaxWatch recommends that other incentive mechanisms for the employment of people with disabilities be considered in addition to those presently in place.

Background

Late last year, Florida TaxWatch reviewed possible privatization opportunities for Florida's university system, pursuant to Section 14.203, Florida Statutes regarding competitive government. When inquiring why janitorial services were not outsourced, TaxWatch researchers were told that such arrangements could not be made because of the requirement to use RESPECT, the central, non-profit program designated by the Commission for the Purchase from the Blind or Other Severely Handicapped, to carry out Section 413.032, Florida Statutes. Following that revelation, TaxWatch undertook this study.

Conflicting Policies

In its investigation, Florida TaxWatch discovered an existing conflict between the two Florida public policies. One policy seeks to infuse higher levels of privatization and competition in the delivery of state services, while the other policy seeks to establish incentives for the employment of people with disabilities. The conflict exists between Section 413.032 - .037, Florida Statutes which provides for the mandatory purchase of state products and services produced by the blind or other people

Underemployment of Floridians with Disabilities Demand Immediate Attention

The rate of unemployment for individuals with disabilities is staggering, with as many as two-thirds of the working-age population unemployed nationally. Equally disheartening is the number of individuals with disabilities getting by on marginal resources. According to 1990 Census estimates, 22 percent of working age people with disabilities live at or below the poverty level, and an additional 12 percent can be classified as "near poor" (with incomes between 101 and 150 percent of the poverty line) nationwide. This compares to 10 percent of working-age people without disabilities living in poverty, and an additional 6 percent near poor¹. Census estimates also indicate that there are over 400,000 working age persons with disabilities who are unemployed in Florida.

Study after study has shown that most individuals with disabilities want to work. Moreover, once working, many individuals with disabilities become either self-supporting or less dependent on government-sponsored programs. In 1991, the U.S. Rehabilitation Services Administration found that 52 percent of people with disabilities were able to support themselves after finding employment, versus only eight percent before working. Employees with disabilities also tend to have lower turnover rates than other employees. Therefore, investing in employment supports and services yields a significant return on investment.

¹ People with Disabilities: Federal Programs Could Work Together More Efficiently to Promote Employment, GAO/HESH 96-12.

with severe disabilities and Section 14.203, Florida Statutes regarding competitive government. The latter provision, enacted by the 1994 Legislature, requires that all state services be performed in the most effective and efficient manner to provide the best value to the citizens of the state. The statute also states that competition is the strategy to be utilized to achieve this policy goal. However, Section 413.032 - .037, Florida Statutes mandates that any service or product listed as available from a qualified non-profit agency for the blind or other severely disabled person must be purchased by the state from that agency. Some state agencies have responded by incorporating such a mandate into their purchasing policies. For example, the Department of Transportation, on December 17, 1993, issued the following policy statement on the issue:

"It shall be the Department's policy to procure commodities or services through RESPECT of Florida from qualified non-profit agencies for the blind and other severely handicapped if the service or product is available within a reasonable delivery time."

Section 413.032 - .037, Florida Statutes also provides for the creation of a Commission for the Purchase from the Blind or Other Severely Handicapped to oversee implementation of this statute. The Commission, in turn, has designated RESPECT, an entity administered by FARF (Florida Association of Rehabilitation Facilities) as the central non-profit agency responsible for facilitating orders to procure commodities or services from qualified nonprofit organizations. RESPECT of Florida generated sales of \$16.3 million between July 1994 and June 1995, utilizing 50 not-for profit work centers and an estimated 1,500 employees with disabilities.

While the intent of facilitating the employment of persons with disabilities as described in Section 413.032 - .037, Florida Statutes, is admirable and essential, the operation of this policy in its present manner incurs three significant difficulties. First, state agencies are mandated by statute (Section 413.036, Florida Statutes) to offer first choice for purchase of any product or service that RESPECT's centers produce. Although by most accounts the goods and services provided by RESPECT's centers are competitive in both their price and their quality, the fact that state agencies are mandated by law to purchase from RESPECT conflicts with the current policy regarding competitive procurement of services.

Second, Florida TaxWatch's research has found that the delivery of employment services through a central non-profit agency incurs significant administrative overhead costs. This decreases the amount of money that could be provided as compensation to people with disabilities and is an inefficient use of taxpayer dollars. For example, Florida TaxWatch reviewed an existing Fiscal Year 1995-96 RESPECT contract worth \$194,820.25 and found that while the employees with disabilities were paid \$5.15 per hour, the local non-profit agency received 13.3 percent (\$25,937) in overhead and contingency fees. Additionally, the central non-profit agency, RESPECT, received a fee worth 6.4 percent (\$11,689.25) for a total of 19.7 percent in overhead costs. A review of RESPECT's Fiscal Year 1994-1995 budget summary and other data revealed that RESPECT received over

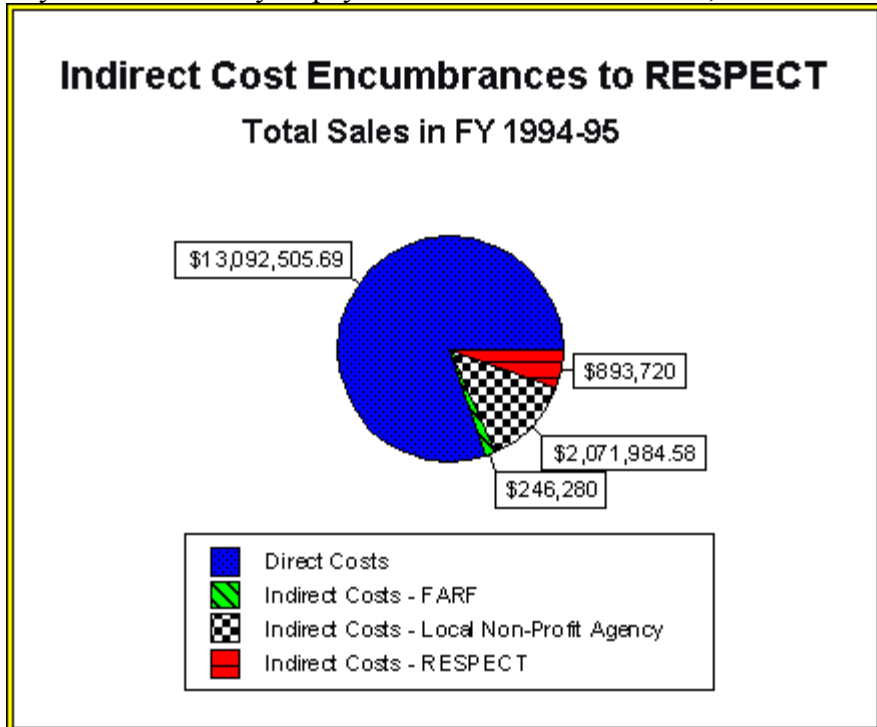
\$1.14 million from state and local governmental contracts in that fiscal year, which it used for operational and other administrative expenses.

The budget summaries also revealed that the administrative overhead encumbrances extend even further , because RESPECT then allotted about 23 percent (\$246,280) of the \$1.14 million that it collected in revenues in Fiscal Year 1994-1995 to its parent organization, FARF for an indirect cost allocation. Therefore, applied to the total sales figures for Fiscal Year 1994 -1995, RESPECT, FARF, and its local non-profit agencies utilized about 19.7 percent or over \$3.2 million of the gross sales, approximately \$16.3 million, to state agencies for administrative expenses. (See Figure 1) This amount, over \$3.2 million, equates to nearly \$2,200 per person in additional wages that could have been used to compensate employees with disabilities or to increase the number of people with disabilities who are employed.

Third, Section 413.032 - .037, Florida Statutes, may have effectively helped to subsidize, with taxpayer dollars, the operation of FARF, a private non-profit trade and advocacy group. It is not widely known that RESPECT is not an independent non-profit agency, but rather a program wholly owned and administered by FARF. A review of FARF's 1994 federal tax return validates this finding and further indicates that RESPECT's fee generated revenue comprised 65.8 percent of the total revenue reported by FARF that year. Florida TaxWatch recommends that the Commission for the Purchase from the Blind or Other Severely Handicapped or the Auditor General's Office review this matter with RESPECT to ensure that the maximum payoff is achieved for every dollar spent by the state to help people with disabilities.

Florida TaxWatch believes that the work of RESPECT and its affiliated non-profit agencies do provide a viable, appropriate and meaningful employment option for persons with the most severe disabilities in the area of sheltered employment. However, in view of the fact that RESPECT and its local non-profit centers serve only about 1500 clients, when US Census Bureau estimates of the population of unemployed people with disabilities in Florida are as high as 400,000, TaxWatch further recommends that other modes of incentives for the employment of persons with disabilities be considered by the state. Suggestions which would reduce administrative overhead costs and be consistent with Section 14.203 Florida Statutes because they stress market-type incentives, follow. Such action would also yield more money to pay Floridians with disabilities, who should be the primary beneficiaries of any such state program.

One of the most straightforward and cost-effective methods of helping people with disabilities to find jobs is by encouraging businesses, especially small businesses, to proactively recruit and hire them. Additionally, the direct employment of the disabled is



consistent with Florida's policy on competitive provision of services. One of the ways in which the federal government and some states are helping people through disabilities to find jobs is with full or partial tax credits for businesses that hire the people with disabilities, coupled with an investment in supported employment services. For example:

Section 190 of the Internal Revenue Code permits any business to take a deduction for qualified architectural and transportation barrier removal expenses.

Section 44 of the Internal Revenue Code permits small businesses with either gross receipts up to \$1 million or no more than 30 full time employees, to take an annual tax credit of up to \$5,000 for compliance with the Americans With Disabilities Act (ADA) expenditures in excess of \$250. This credit is known as the Disabled Access Credit.

Section 51 of the Internal Revenue Code provided a Targeted Jobs Tax Credit (TJTC), based on the first \$6000 in wages paid to employees from nine targeted groups, one of which was vocational rehabilitation. This provision expired on December 31, 1994 and is

being replaced by a Work Opportunity Tax Credit (WOTC). This new program also provides a tax credit of up to 35 percent of the first \$6000, or up to \$2,100 in wages paid during the first 12 months for each hire. Vocational rehabilitation referrals, qualified recipients of AFDC (Assistance to Families with Dependent Children), veterans, ex-felons, food stamp recipients, and summer youth employees are eligible to apply for this assistance. Table 1 below summarizes the Disabled Access Credit and the Targeted Jobs Credit by type of income tax return filed in 1992 and 1993.

State governments have also taken the initiative of enacting legislation that provides tax credits for businesses that hire people with disabilities. Since 1984, Iowa has had a state tax credit program for individuals and corporate taxpayers that hire persons with disabilities which allows for an additional deduction on their state income tax. The additional deduction is 65 percent of wages paid in the first year of employment of an individual, up to \$20,000 per person.

Table 1

	1992		1993	
Forms 1120 - U.S. Corporation Income Tax Returns Other than Forms 1120S				
	Number	Amount	Number	Amount
Targeted Jobs TaxCredit	4762	\$329,054,000	4239	\$290,861,000
Disabled Access Credit	1129	\$2,763,000	534	\$1,845,000
Forms 1120S - This form is used to report the income, deductions, gains, losses, etc. of a domestic corporation that has elected to be an S Corporation by filing Form 2553, election by a small business corporation.				
Targeted Jobs TaxCredit	3477	\$33,767,000	3534	\$29,317,000
Disabled Access Credit	593	\$2,489,000	1320	\$3,190,000

Source: Internal Revenue Service

Hawaii has had a similar law since 1991, and Pennsylvania and New York are presently attempting to pass such legislation. Under a proposed Vocational Rehabilitation Jobs Tax Credit Program in Pennsylvania, a business can claim 40 percent of the qualified first-year wages (any amount exceeding \$8,750 for a full time employee and \$5,000 for a part-time employee) paid to an employee with disabilities, with varying percentages in subsequent years. It would also institute a ceiling cap of \$6 million per year on the amount that can be claimed by businesses under this program. The state of Florida is already moving in this direction with Gov. Chiles' "WorkPay\$ for Florida Business," a proposed program to offer tax breaks to those businesses that hire welfare recipients.

Local private entities have also demonstrated a willingness to proactively assist in the employment of people with disabilities. For example, the Florida Chamber of Commerce and the Florida Vocational Rehabilitation Association have launched a Corporate Initiative Project to assist in the employment of people with disabilities. The program provides technical assistance to generate a partnership between the business community and local service providers. It also provides training opportunities and presentations to businesses that attempt to break down the physical and attitudinal barriers that prohibit persons with disabilities from achieving employment. This program is also used in conjunction with an already existing Employment Assistance Program to help potential employers overcome misconceptions and realize the benefits of hiring persons with disabilities. Programs such as these provide an important first step in alleviating unemployment problems for people with disabilities. In addition, private corporations such as PUBLIX supermarkets have long taken the initiative of starting their own internal program of hiring and training persons with disabilities.

Recommendations

◆As a matter of policy, the state should consider incentives for the employment of people with disabilities that stress market type mechanisms (such as tax credits) over bureaucratic or command and control mechanisms. Market mechanisms tend to be more efficient and effective in providing employment to people with disabilities, as well as other benefits such as on-the-job training and health benefits.

Constructive Criticism can Pay off for the Taxpayers

In 1989, Florida TaxWatch published its assessment of a similar program that was intended to provide social benefits to a targeted population (i.e. increase rehabilitative opportunities for state inmates) and at the same time produce cost savings measures for the taxpayer. At the time, the actual impact of Prison Rehabilitative Industries and Diversified Enterprises, Inc. (PRIDE) was found to have a number of deviations from the original legislative intent surrounding the creation of the program. Florida TaxWatch recommended improvements, a substantial number of which have been adopted by the Legislature and by PRIDE's Board and management. Florida TaxWatch is pleased to report that Florida's PRIDE program is now considered a national model for state prison industry operations by properly combining the goals of inmate rehabilitation, competition and cost effective production of state goods.

◆Florida TaxWatch therefore recommends that the Florida Legislature consider a two-pronged initiative designed to employ as many Floridians with disabilities as possible. The first component would involve instructing the appropriate state agencies, such as the Florida Department of Labor, to begin aggressively informing business organizations and the general public about federal and local programs, such as the new Work Opportunity Tax Credit Program, that compensate businesses that hire persons with disabilities. Florida TaxWatch recently reported on the status of Florida's federal grants acquisition, indicating that the state has traditionally been shortchanged on federal grants.² The report reveals that if Florida had received a share of all federal grants equal to its share of all federal taxes paid, Florida would have received \$3.3 billion more than it did in Fiscal Year 1995-1996. Proactively informing and encouraging Florida businesses to take advantage of federal tax credit programs such as those that target the employment of Floridians with disabilities is one way of helping to rectify this situation, as well as assisting Floridians with disabilities to find employment in a very efficient and effective manner.

◆Florida TaxWatch also recommends that the state of Florida go even further and implement its own initiative by providing businesses with state sponsored incentives to hire persons with disabilities. These incentives could be in the form of a deduction on the corporate income tax or a grant to participating businesses. This initiative would reduce the overhead involved in administering other forms of employment programs for the disabled. It would also reconcile Florida's policy of competitive

provision of services with its policy of assisting with the employment endeavors of Floridians with disabilities. In addition, it would actively engage the private sector in employing people with disabilities which offers a vastly greater potential to accommodate their employment needs than the government and the voluntary sectors combined. Engaging the private sector directly is a more efficient, effective and economical way of assisting Floridians with disabilities to live more self-sufficiently through employment.

◆Florida TaxWatch believes that even one unemployed Floridian with a disability who wants to work - and who can work - is too many. Therefore, in its subsequent reports,

Florida TaxWatch will highlight the efforts of businesses and voluntary organizations who have taken the initiative of directly hiring people with disabilities. Florida TaxWatch believes that these organizations and their programs can serve as models for others and that the state should fully support such efforts in a spirit of public-private partnership.

Endnotes

¹ Members of the Commission for the Purchase from the Blind or Other Severely Handicapped include the Secretary of the Florida Department of Management Services (DMS), the Director of the Division of Vocational Rehabilitation of the Department of Labor, the Director of the Division of Blind Services of the Department of Education, an executive director of a nonprofit agency for the blind, an executive director of a nonprofit agency for people with other severe disabilities, a private sector representative, and a representative of political subdivisions.

² "Florida Still Getting Shortchanged on Federal Grants", Florida TaxWatch Research Report, November 1996, Tallahassee, Florida.

Response made by RESPECT of Florida

We appreciate the opportunity to respond to the TaxWatch Research Report on the RESPECT program. We can demonstrate and document that the program is indeed consistent with the policy of the state to infuse higher levels of privatization and competition in government procurement. We can also demonstrate that the program achieves its mission with integrity and in a cost effective manner to the benefit of not only persons with disabilities but all taxpayers.

Consistent with the state's privatization policy, RESPECT and its participating nonprofit vendors are all private entities offering quality products and services to government at competitive prices. These vendors are local Goodwill Industries, ARCs, Lighthouses for the Blind, Easter Seals Societies, and other community-based organizations providing employment for persons with disabilities. Competitive pricing and quality are assured by extensive reviews by the Commission for the Purchase from the Blind or Other Severely Handicapped, the Department of Management Services, and by procuring agencies. In previous TaxWatch publications, it was noted that RESPECT products are "competitively priced." It was also noted that our highway rest area maintenance employment program is "less expensive and more beneficial" for employees with disabilities "because they are better integrated into the regular workforce." Even in its current report TaxWatch acknowledges that "by most accounts the goods and services provided by RESPECT's centers are competitive in both their price and their quality."

The operating funds of the RESPECT program are not supported with state revenues, but a percentage of the proceeds from sales. Funding of RESPECT is directly related to the success of the program and is not contingent on state appropriations. Total operational costs of RESPECT was 6.6% of total revenues in FY 95/96. Included are administrative costs of only 1.4% of revenues. The average administrative costs of participating vendors of products and services is only 8.7%. A comprehensive analysis of these costs was

provided to TaxWatch. The combined average administrative costs of RESPECT and vendors are only 10.1% of revenues. We take pride in operating an efficient program in a very cost effective and responsible manner.

TaxWatch's Response: The documents provided to TaxWatch, which included a copy of a service contract between RESPECT and Florida International University (FIU) as well as budget schedules for Fiscal Year 1994-95 and for 1995-96 does not concur with the above assertions. The FIU contract reveals that the administrative costs of the participating vendors was 13.3 percent. The Fiscal Year 1994-1995 budget revealed that RESPECT's administrative expenses for that fiscal year was \$1,078,107.00, or about 15 percent of the \$16,304,490.27 received from state revenues that year.

We are supportive of TaxWatch recommendations to increase incentives for employment of persons with disabilities. However, tax credits for businesses alone may not be as effective as proposed. In fact, U.S. Labor Department studies of the Targeted Jobs Tax Credit (TJTC) program found that only 37 cents of economic benefit were returned for every dollar in lost taxes and administrative costs. "I can only conclude" wrote Labor Department Inspector General Charles C. Masten, "that the tax credit is a windfall for employers, since the program is inconsequential in encouraging employment."

TaxWatch's Response: The GAO report blames the administrative inefficiency, not the goals or objectives, for the failure of the TJTC program. Programs are seldom delivered efficiently from the federal level; that is why TaxWatch urges the state of Florida to get involved in the provision of employment incentives.

It needs to be pointed out that RESPECT is not an employment incentive or welfare program. RESPECT helps persons with disabilities in the most straightforward and cost-effective manner, it provides jobs. Currently, over 1580 persons with disabilities are gainfully employed, less reliant on government support, and are paying taxes and contributing to the economy of the state. In addition, last year alone, over 300 persons with disabilities, previously employed through the RESPECT program, were placed with other employers. Yes, 1580 persons are a minute portion of the population in need of employment. What is needed is greater participation by state and local government agencies in the RESPECT program. We have realized significant growth over the past years. With greater participation, we are looking forward to providing employment to greater numbers of Florida citizens with disabilities in the future.

We welcome additional oversight of our program. We recognize that, as a preferential purchasing program, we should be subject to very strict scrutiny. We can demonstrate and document that RESPECT, and your participating community organizations, fulfill our legislated purpose of assisting our capable Florida citizens with disabilities to achieve maximum personal independence through useful, productive, and gainful employment, and thereby reduce their dependence on government support.

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