



GOVERNMENT COST SAVINGS TASK FORCE *for* FY2013-14



Report *and* Recommendations *of the* Florida TaxWatch Government Cost Savings Task Force *for* FY2013-14





GOVERNMENT COST SAVINGS TASK FORCE *for* FY2013-14

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Dear Fellow Taxpayers:

It is our distinct honor and pleasure to present the *Report and Recommendations of the Florida TaxWatch Government Cost Savings Task Force for FY2013-14*. This *Report* is the product of the fourth consecutive Florida TaxWatch Government Cost Savings Task Force. This year's Task Force is comprised of more than 20 volunteer business and community leaders motivated by their shared passion for ensuring efficiency in Florida's government.

Traditionally, the Task Force has produced a menu of original solutions designed to assist our policy makers and elected officials with creating greater accountability in Florida's government. In the last three years, the Task Force recommendations implemented by the Legislature have saved the taxpayers nearly \$3 billion. Building upon this momentum and success, this year's Task Force met for extensive meetings in different regions of Florida during the Fall of 2012. Each member brought unique perspectives, ideas, experiences, and expertise to the discussion, and through careful consideration, the Task Force selected 25 recommendations focusing on some of the most important issues affecting Florida's budget. These thoroughly researched recommendations are constructed to reduce waste and improve taxpayer value in this fiscal year and have a potential estimated cost savings of more than \$1 billion. In the long term, it is the hope of the Task Force that an annual piece of legislation is required every year that embraces cost savings.

One of this year's key recommendations is to replace Florida's outdated accounting system, the Florida Accounting Information Resource (FLAIR). A modernized, streamlined accounting system would provide a transparent measurement of the expenditure of taxpayer funds. In fact, a new accounting system would help to strengthen the implementation and measurement of each of these carefully crafted recommendations.

Florida has struggled with enormous economic insecurity over the last few years due to the Great Recession. Our policy makers and elected officials are dedicated public servants who through their leadership and diligence have led Florida onto a road of recovery. Reforms are now as vital and critical as ever to ensuring economic sustainability for future generations. The recommendations in this *Report* are intended to assist with this crucial effort.

Sincerely,

John R. Alexander
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John B. Zumwalt, III
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Robert Stork
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* Florida TaxWatch would like to honor the late Bill McBride for his tireless work for the citizens of Florida, and his invaluable contribution to this Task Force.



LIST OF RECOMMENDATIONS

Rec. #	Name of Recommendation	Category	Cost Savings Estimate	Page
1	Implement a defined employer contribution health insurance model	Health Care Reform	\$380.3 million*	7
2	Reduce operational expenditures through the use of benchmarking for appropriations and the State's shared-savings program	General Government Reform	\$230 million*	9
3	Eliminate the Deferred Retirement Option Program (DROP)	General Government Reform	\$71.4 million*-	10
4	Implement a fraud deterrent system for child care providers	General Government Reform	\$60 million*	11
5	Expand electronic monitoring as a tool to divert non-violent offenders from prison	Criminal Justice Reform	\$58.8 million*	12
6	Improve collection of sales tax on remote sales - E-Fairness and Streamlined Sales Tax	Revenue Enhancement	\$58.5 million*	13
7	Improve eligibility requirements for Bright Futures Scholarship (BFS) program recipients	Education Reform	Up to \$55.4 million*	15
8	Expand electronic monitoring as an alternative to traditional incarceration for offenders serving prison sentences	Criminal Justice Reform	\$43.8 million*	17
9	Improve the process for identification and disposal of underutilized and surplus land and assets	General Government Reform	\$39 million	18
10	Increase the use of electronic time and attendance systems	General Government Reform	\$28.9 million*	19
11	Audit the Retiree Drug Subsidy (RDS) Program and convert to an Employer Group Waiver Program (EGWP)	Health Care Reform	\$25 million*	20
12	Expand prison work release programs for low-risk inmates	Criminal Justice Reform	\$20.9 million*	21
13	Improve accountability for State grants	General Government Reform	\$20 million*	22
14	Limit Special Risk class membership to frontline employees	General Government Reform	\$20 million*	23
15	Allow placement of advertising and sponsorship on State publications, properties, and vehicles	Revenue Enhancement	\$18.6 million*	25
16	Provide financial incentives based on controllable wellness indicators to reduce State health insurance costs	Health Care Reform	\$18 million*	27
17	Increasing audit coverage and tax compliance	Revenue Enhancement	\$12 million*	28
18	Expand evidence-based literacy, education, and vocational training programs	Criminal Justice Reform	\$8 million*	29
19	Expand Florida's use of the Section 340B Drug Pricing Program	Health Care Reform	\$7.4 million*	30
20	Expand the use of electronic payments for disbursements and receipts	General Government Reform	\$7.3 million*	31
21	Improve fleet management	General Government Reform	\$7 million*	32
22	Adjust maximum leave accrual for Select Exempt Service (SES) and Senior Management Service (SMS) employees to be equal to Career Service (CS) employees	General Government Reform	\$5.4 million*	33
23	Provide employee pension benefits to all new employees through a Defined Contribution (DC) plan	General Government Reform	SYI	34
24	Establish an agency for State information technology (IT) and business processes	General Government Reform	SYI	35
25	Replace the Florida Accounting Information Resource (FLAIR) with a modern accounting system	General Government Reform	SYI	36

Key: * = savings are recurring
 ~ = savings would also occur at the local level
 SYI = significant yet indeterminate savings

Recommendations are provided by category on page 37.

EXECUTIVE SUMMARY

The Report and Recommendations of the Florida TaxWatch Government Cost Savings Task Force for FY2013-14 provides 25 recommendations worth more than \$1 billion to Florida taxpayers. The recommendations include a variety of policy topics that range from criminal justice to health care and employee shared-savings to Bright Futures reform.

The specific recommendation categories are:

- General Government Reform
- Health Care Reform
- Criminal Justice Reform
- Education Reform
- Revenue Enhancement

Each recommendation has been thoroughly vetted by the Task Force and contains a short description and justification with a cost savings estimate. The citations and formulas provided for the cost savings estimates are based on the best available data and reasonable assumptions, and were generated in accordance with Florida TaxWatch Research Policies and Procedures.

Each recommendation was crafted as a brief analysis of the idea, so not all of the research compiled for each of these recommendations is included in this *Report*; however, additional information for each recommendation is available upon request from Florida TaxWatch.

It is the hope of Florida TaxWatch and the members of the Government Cost Savings Task Force for FY2013-14 that each of these recommendations are implemented to improve Florida government's effectiveness and efficiency, and to ensure the responsible expenditure of taxpayer dollars.

INTRODUCTION

After struggling with great economic losses over the last few years due to one of the worst recessions in history, Florida is finally moving into recovery. For the first time in five years, Florida is not facing a projected budget shortfall. Despite this promising forecast, Florida continues to struggle economically and fiscally. In continually challenging and uncertain times, lawmakers must continue to strive for reforms to maximize the efficiency of government.

Each year Florida TaxWatch partners with community and business leaders from all across the State who share a common interest in ensuring Florida's government is run as efficiently and effectively as possible to form the Government Cost Savings Task Force. These leaders bring together their unique perceptions, expertise, and ideas to create original solutions for reducing waste and improving taxpayer value. In the last three years, the Government Cost Savings Task Force recommendations implemented by the Legislature have saved the taxpayers nearly \$3 billion.

The Task Force convened yet again in the Fall of 2012 to examine the operation and delivery of Florida's government services and to look for ways to further secure Florida's fiscal future through increased efficiencies. Through detailed analysis and in-depth research, the Government Cost Savings Task Force for FY2013-14 produced a targeted list of 25 constructive, pragmatic, and extensively researched recommendations worth more than \$1 billion to Florida taxpayers. The recommendations cover a variety of policy topics, including reforms to health care, general government operations, criminal justice, and education.

Our elected officials and policy makers must make difficult decisions that impact millions of citizens. It is our hope that the work of the Task Force will help to ensure that Florida remains on a sustainable path through a more efficient government, as each recommendation is intended to save taxpayer dollars while enhancing the State's ability to provide essential services and programs to all Floridians.

The work of the Government Cost Savings Task Force for FY2013-14 builds upon the 33-year mission and successful track record of Florida TaxWatch to improve taxpayer value, citizen understanding, and government accountability.

1

Implement a defined employer contribution health insurance model

Florida provides health insurance to public employees through a defined benefit, and defined employee contribution model, meaning the State sets a contribution rate that employees must pay to receive health insurance and then pays the difference between the employee's contribution and the actual cost of the health insurance plan. During the past decade, the cost of the current health insurance system has increased significantly, and further cost increases are predicted. Replacing this model with a defined employer contribution model will provide benefits to both the taxpayers and public employees because it would generate savings for the State by introducing greater market competition into the public health insurance system while ensuring equality in premium contributions among all public employees and providing more choices on decisions about health insurance.

During the past 10 years, the State has absorbed significant increases in the cost of health insurance under the current system. The per-participant per-year taxpayer cost of family coverage (as opposed to single coverage) to insure public employees has more than doubled, increasing from \$6,106 in FY2002-03 to \$12,760 in FY2011-12.¹

An effective way to manage increasing health insurance costs is to convert to a defined employer contribution model of premium support. Under such a model, an employer makes a fixed contribution toward health care coverage for each employee, and employees are provided various private health care plans from which to choose. The different plans vary by deductible, co-payment amount, delivery system, premium, and coverage. It is up to the employee to decide which plan will best fit their needs.

¹ Florida House of Representatives Staff Analysis. "PCB HHSC 12-02. State Employee Group Insurance Program." February 6, 2012.

Unlike the State's current model, where employees are largely insulated from price differences in their health plan choices, a defined employer contribution model creates a marketplace of health insurance options incentivizing employees to select higher value, more affordable coverage. The resulting market-based competition would force insurance providers to be more efficient and creative in their benefit plans and networks, resulting in lower overall insurance rates and trends, which will mean less contribution for the employees as well as for the taxpayers.

In addition to lowering cost through greater competition, defined employer contribution models can also increase cost predictability for employers, encourage employee interest in their own health, and reduce overall administrative burdens because the risks of managing and underwriting health care costs are transferred to private plans.

A defined employer contribution model also offers greater choices for the employees. Under the current defined benefit model, State employees choose between either a standard plan (either a PPO or HMO) or a high deductible plan from a limited number of carriers (generally two in each county). However, under a defined employer contribution model, employees would be empowered to make their own choices among numerous options, offered by many different companies, varying in benefits provided, delivery system, service level, and cost.

A fixed dollar contribution from the State would also ensure equality among all State employees by allowing State employees everywhere to choose their own coverage with an equal amount paid by the State for every employee based on their family status.

Additionally, replacing the current model with a defined employer contribution model may be the key to increasing salaries for State employees, which have been stagnant since the beginning of the Great Recession. The Florida State employee premium contribution for health insurance coverage has not increased since 2005, while the employer

contribution for family coverage has grown during that time by more than \$4,000 a year.² Because total employee compensation consists of the employers' costs of wages and benefits (including health insurance), the State's increasing contributions to health insurance costs under the current model have crowded out salary increases for State employees.

This situation is occurring nationally as well. Over the last 10 years, annual employer contributions to health insurance costs have increased at a rate of 7 percent nationally, while median household income has declined by \$2,000.³

A defined employer contribution model is already in place at the federal level through the Federal Employees Health Benefits Program (FEHBP). More than eight million people nationally are covered under the FEHBP, receiving a defined employer contribution toward their premium costs. Employees currently choose from more than 200 competing insurance plans offered by many different companies. Costs and trends in the FEHBP compare favorably with those experienced by the State. Furthermore, many private sector employers are likely to think about alternatives to traditional health benefits such as defined employer contribution models in the next couple of years.⁴

During the 2012 Legislative session, a bill converting the State's employee health insurance system from a defined benefit to a defined employer contribution starting in plan year 2014 was considered by the House Health & Human Services Committee. Under the proposed legislation, employees would have received a defined employer contribution actuarially equivalent to no less than 85 to 90 percent of the benefits covered in the 2012 plan year depending on the coverage type (individual or family). Employees selecting plans that cost less than the State's contribution would have been able to receive the

balance either toward their salaries or as a credit to a flexible spending or health savings account, leading to increased take-home pay. Employees selecting plans that cost more than the State's contribution would have been required to contribute the remainder of the premium cost through salary reductions. Nonsmoking employees may have been eligible for an enhanced contribution.⁵

Switching to a defined employer contribution model could save the State \$380.3 million annually by introducing greater market competition and employee choice into the public health insurance system.⁶

The cost of the State's current employee health insurance program to the taxpayers is nearly \$2 billion per year, and premiums are expected to rise by 9.2 percent annually through FY 2015-16.⁷ Converting to a defined employer contribution model would induce a competitive health insurance market that will lower costs.

Recommendation: Design and implement a plan to convert the State health insurance system from a defined benefit to a defined employer contribution model.

2 Government Efficiency Task Force. "Final Report." June 2012.

3 The Kaiser Family Foundation. "Employer Health Benefits Annual Survey." 2012. Available at ehbs.kff.org/pdf/2012/8345.pdf

4 Gunn, Stuart and Stephens, John. "Defined Contribution Health Insurance: This Time, It's Really Happening. How Should Payers Respond?" A Bridge Strategy Group Perspective. November 2012.

5 Florida House of Representatives Staff Analysis. "PCB HHSC 12-02. State Employee Group Insurance Program." February 6, 2012.

6 Estimate is based on projections from: Florida Department of Management Services. Division of State Group Insurance. "State Employees' Group Health Self-Insurance Trust Fund: Report on the Financial Outlook for the Fiscal Years Ending June 30, 2012 through June 30, 2015." August 20, 2012. The cost savings estimate is based on the calendar year and assumes that the defined employer contribution model would be implemented on January 1, 2015. The estimate is based on the Financial Outlook's "Operating Gain/(Loss)" for FY2014-15 (-\$276.6 million) and FY2015-16 (-\$484.1 million), provided on page 1, and is derived by assuming half of the operating loss for FY2014-15 (\$138.3 million) and for FY2015-16 (\$242 million) would be saved in the first year of implementation (calendar year 2015) and thereafter.

7 Florida House of Representatives Staff Analysis. "PCB HHSC 12-02. State Employee Group Insurance Program." February 6, 2012.

2 Reduce operational expenditures through the use of benchmarking for appropriations and the State's shared-savings program

A benchmark of agency expenses over time would reduce appropriations by illuminating where discretionary operating expenses have grown more than would be expected due to normal inflation and an increased workforce.¹ Florida TaxWatch created such a benchmark for each agency and budget entity using payment data from FLAIR, the State's accounting system, by analyzing data from FY2005-06 through FY2009-10.² Payment data from FY2005-06 was used as a baseline to control for inflation and the number of employees (i.e., FTEs) employed within each budget entity in order to create a benchmark.³ According to the analysis, approximately **30 percent of the budget entities** had operational expenditures exceeding their benchmarked amount for FY2009-10 totaling **\$1.49 billion in taxpayer dollars**.

If benchmarking operational spending for all budget entities reduced appropriations by only 10 percent of the amount in excess of the 2005 Florida TaxWatch benchmarking analysis, the taxpayers would save nearly \$150 million (and reducing 50 percent of the documented increase in spending on goods and services would result in \$745 million in cost savings). The Legislature should adjust appropriations to the agencies and budget entities that exceed the benchmark to save taxpayer dollars.

Additionally, to reduce overspending of appropriated funds, the State should expand the use of the employee shared-savings program.⁴ This program incentivizes employees to reduce or eliminate wasteful spending.⁵

1 If focused on operational expenses, benchmarks could apply to federally funded agencies as well.

2 For information about the benchmark, see: Florida TaxWatch. "Report and Recommendations of the Florida TaxWatch Government Cost Savings Task Force for Fiscal Year 2012-13." (pgs. 88-89).

3 The Urban Consumer Price Index (CPI) was used to adjust for price inflation between 2005 and 2010.

4 The shared-savings program is authorized in Florida Statute 110.1245

5 Under the existing program, each agency head recommends the

An incentive program would save millions for the taxpayers. A Florida TaxWatch analysis of "controllable spending" (i.e., discretionary spending of State agencies related to their operation) in the last month of FY2008-09 revealed that up to \$160 million were possibly attributable to "fourth-quarter dumping."⁶ **If only 50 percent of this identified operational expenditure could be saved through a shared-savings program, \$80 million in cost savings could be realized with some portion of that savings going to public employees as a reward.**⁷

The savings in a single year that trigger the bonuses will result in recurring savings for the taxpayers because baseline budgets will be reduced to reflect the new spending. Additionally, this program is a tool for managers to recognize the team and encourage performance beneficial to the taxpayers.

Combining a benchmarking process with an employee shared-savings program would reduce the State's operational expenditures by \$230 million annually through reduced appropriations and reduced expenditures.

Recommendation: Utilize a benchmarking tool and the State's shared-savings program to reduce operational expenditures.

employees to be awarded an amount of money related to the cost savings realized. The Legislative Budget Commission must approve each award, ensuring the accountability of services performed. The shared-savings program must remain focused on outcomes and predicated on maintaining high levels of service and should ideally measure the agency's operational and controllable personnel expenses (and not focus on service contracts).

6 Certainly, not all of the June spending is due to unnecessary last minute spending of State agencies (some of the spending may represent the agencies' simply waiting to purchase lower priority items, following completion of higher-priority needs earlier in the fiscal year). Source: Florida TaxWatch "Report and Recommendations of the Florida TaxWatch Government Cost Savings Task Force for Fiscal Year 2012-13." (pg. 87).

7 Similarly, the "State Operations" appropriation ("State funds - Nonmatching") in the FY2012-13 budget was \$8.1 billion, so if only 1 percent of the expenditures were unspent, the savings would be approximately \$80 million. Source: Laws of Florida. Chapter 2012-118.

3

Eliminate the Deferred Retirement Option Program (DROP)

The Deferred Retirement Option Program (DROP)¹ has cost Florida taxpayers hundreds of millions of dollars since its creation in 1998. As of June 2011, the DROP had 36,890 participants with an accrued liability of more than \$2 billion.² Overall, the continued use of the DROP in the public sector has been lucrative for employees and costly to taxpayers.

Most states do not have an equivalent program and some states that previously adopted one have eliminated it. The Arizona Legislature eradicated a DROP program in 2006³ after an impact study revealed it significantly increases the contributions needed to maintain it,⁴ although the State still maintains a DROP for its Public Safety Personnel Retirement System. Furthermore, such programs are virtually nonexistent in the private sector.

While recent reforms reduced the cost of the DROP for taxpayers,⁵ the program still guarantees returns during their participation, even if the Florida Retirement System (FRS) Trust Fund experiences a decline in investment.

Additionally, there have been issues in the past concerning the requirement of employment termination following a participant's DROP period. The practice, termed "double-dipping," occurs when

a participant completes the DROP period, receives DROP benefits, but continues employment, thus collecting salary and retirement benefits. In 2010, there were nearly 10,000 "double-dippers" in the FRS.⁶ Although recent legislation has tightened restrictions on DROP participants to address "double-dipping," there are still nearly 2,000 "double-dippers" currently funded by taxpayers.⁷

A report published by the Florida Legislature's Office of Program Policy Analysis and Government Accountability (OPPAGA) estimated the FRS paid an additional \$71.4 million in FY2008-09 to fund DROP.⁸ As of June 30, 2011, there were 36,890 total DROP participants, of which 9,544 were State employees (27,346 were non-State employees). **Assuming the same ratio (25.9 percent) of total participants are State employees, and the same amount of savings estimated by the OPPAGA report, the State's portion of the total \$71.4 million in annual taxpayer savings from eliminating the DROP would be approximately \$18.5 million.**

However, following the recent legislative changes to the DROP, the number of applications doubled (from 2010 to 2011)⁹ as employees rushed to apply for the DROP before the changes took effect on July 1, 2011. It is likely that a similar spike in participation would occur immediately before the program is eliminated, which would affect the initial cost savings estimate.

Recommendation: Eliminate the DROP.

1 The program allows FRS members to officially "retire," but continue to work as an active employee while accumulating pension benefits in an escrow account for up to an additional five years.

2 Florida Department of Management Services. Division of Retirement. "Florida Retirement System 2010-11 Annual Report."

3 Arizona State Retirement System. "Comprehensive Annual Financial Report." June 30, 2009.

4 Pew Center for the States. "The Trillion Dollar Gap." The Pew Charitable Trust. February 18, 2010.

5 Until June 2011, DROP participants received a 6.5 percent guaranteed annual interest rate return on their deferred pension payments in addition to the cost of living adjustments that Defined Benefit (DB) pension play annuitants are provided. The passage of SB 2100 by the 2011 Legislature reduced the guaranteed annual rate of return to 1.3 percent for new DROP participants after July 1, 2011. Source: Florida TaxWatch. "Report and Recommendations of the Florida TaxWatch Government Cost Savings Task Force for Fiscal Year 2012-13." (pg. 165).

6 Hafenbrack, Josh. "Florida slams brakes on double dipping." Sun Sentinel. June 15, 2010. Available at articles.sun-sentinel.com/2010-06-15/news/fl-drop-double-dippers-20100614_1_government-workers-government-employees-retirement

7 "Double-dip retirement days over for State's employees." Associated Press. June 4, 2012. Available at www.wtsp.com/rss/article/257798/19/Double-dip-retirement-days-over-for-states-employeespdf

8 Madden, Ed and Vaughn, Linda. "DROP Could Be Improved by Defining Its Purpose, Standardizing Requirements, and Ensuring That Benefits Are Equitably Funded. Report No. 10-28." The Florida Legislature's Office of Program Policy Analysis and Government Accountability. March 2010.

9 Hafenbrack, Josh. "Florida slams brakes on double dipping." Sun Sentinel. June 15, 2010. Available at articles.sun-sentinel.com/2010-06-15/news/fl-drop-double-dippers-20100614_1_government-workers-government-employees-retirement

4

Implement a fraud deterrent system for child care providers

Florida pays nearly 11,000 child care providers for services to nearly 300,000 children.¹ Implementing an automated point-of-sale child care utilization program rather than depending on frequently unreliable provider self-reporting of attendance would save the State tens of millions of dollars annually by reducing incorrect payments and fraud while saving administrative funds through the elimination of data entry activities associated with provider invoicing.

Parents or designated caregivers check children in and out of care with attendance verified through the use of a swipe-card or other point-of-sale verification methods. Such automated utilization programs are available from reputable contract service providers and are in use in other states. The program could be implemented quickly.

Similar programs are currently operational in Oklahoma, Indiana, Texas, Colorado and Louisiana. These services have been documented to reduce state child care provider costs by 10 percent or more by eliminating payment of fraudulent and errant billings.

States also made changes in their child care rules to maximize savings through automation. Additional administrative savings were realized through reassignment and attrition of data entry and audit staff, and through elimination of paper check printing and mailing. The savings realized are a product of both the technology and the strengthened rules which require providers to utilize the technology.

¹ Government Efficiency Task Force. "Final Report." June 2012.

The use of the technology without strong supporting rules (specifically requiring all providers to use the system) would result in fewer savings.

Assuming a minimal savings estimate of 10 percent,² the estimated savings for Florida would be \$72 million per year. Based on the operational costs experienced by other states, **the service could be provided for less than \$12 million per year, resulting in an estimated annual net savings of at least \$60 million per year on a conservative basis.**

Furthermore, this initiative could be implemented throughout State government for other State-financed services for which a point-of-service verification system would be suitable.

Recommendation: Immediately contract for an automated point-of-sale child care utilization program and require all providers in the State system to utilize the program. Upon success of this fraud deterrent system for child care providers, this initiative should be implemented for other State-financed services.

² Oklahoma projected savings as published in the Hearing before the Health and Human Services Committee on Ways and Means, One Hundred and Ninth Congress. See also: Oklahoma Department of Human Services Case Study. "Oklahoma needed to streamline its child care system. We didn't kid around." 2012. Available at www.acs-inc.com/cs_oklahoma_department_of_human_services.aspx and Heaton, Brian. "Real-Time Child-Care Data Saving Millions in Oklahoma." Government Technology. March 9, 2012. Available at www.govtech.com/health/Real-Time-Child-Care-Data-Saving-Millions-in-Oklahoma.html

5

Expand electronic monitoring as a tool to divert non-violent offenders from prison

While many criminal offenders need to be sentenced to time in state prison, some non-violent offenders¹ may be better served through alternative sentences, such as electronic monitoring, which are effective and significantly cheaper for the taxpayer.

The cost of incarceration is six to 27 times higher than the cost of electronic monitoring.² Additionally, offenders may be required to pay the full cost of electronic monitoring, although many offenders are exempt from payment under the discretion of the Florida Department of Corrections (DOC).³

A 2010 study examining the impact of Florida's electronic monitoring policies and practices found that "Electronic monitoring reduces the likelihood of failure under community supervision... [by] about 31 percent, relative to offenders placed on other forms of community supervision."⁴

Increasing the use of electronic monitoring as a diversion from prison for non-violent crimes would not violate 944.275(4)(b)(3) of the Florida Statutes, which requires inmates to serve 85 percent of their imposed sentences.⁵

OPPAGA recently evaluated ways that Florida could reduce its prison costs through expanding the use of community-based sanctions. Based on research from a DOC study, OPPAGA determined that 75 out of every 100 offenders placed on electronic monitoring will not violate the terms of their supervision, therefore diverting prison and leading to savings of \$1.2 million to the State.⁶

DOC reports that 57,573 inmates are currently incarcerated for violent crimes, leaving 49,616 inmates whose primary offense is not a violent crime (e.g., drug or property offense).⁷

For every 10 percent of non-violent offenders that are diverted from prison and instead are supervised via electronic monitoring, the State saves \$58.8 million annually.⁸

Recommendation: Expand authority for the use of electronic monitoring as an alternative to incarceration at sentencing for non-violent offenders.

1 For a list of non-violent offenses, see page 17 of this Report.

2 Based on a comparison between the per diem rate of incarceration (Source: Florida Department of Corrections. "Quick Facts." August 2012) and the per diem rate of electronic monitoring (Source: Government Efficiency Task Force. "Final Report." June 2012.)

3 Through circumstances listed under 948.09(3)(a-g) of the Florida Statutes (e.g. inability to find employment, enrollment as a student, and priority of other fees such as restitution or child support)

4 Bales, Bill, et al. "A Quantitative and Qualitative Assessment of Electronic Monitoring, Report Submitted to the Office of Justice Programs, National Institute of Justice, U.S. Department of Justice." The Florida State University College of Criminology and Criminal Justice, Center for Criminology and Public Policy Research. January 2010.

5 Florida Statue 944.275

6 Lize, Steve and Seeger, Kelley. "Intermediate Sanctions for Non-Violent Offenders Could Produce Savings. Report No. 10-27." The Florida Legislature's Office of Program Policy Analysis and Government Accountability. March 2010.

7 Florida Department of Corrections. "2010-2011 Agency Report-Inmate Population." According to the OPPAGA report, only 40 percent of offenders were incarcerated for non-violent crimes in 2009 such as drug offenses and property theft.

8 FY2010-11 DOC numbers show that 49,616 offenders were not incarcerated for a violent primary offense. Assuming 10 percent of those offenders received electronic monitoring as an alternative to a prison sentence, approximately 4,900 inmates would be diverted. As OPPAGA found, if every 100 offenders equals \$1.2 million in cost savings, then $49 \times \$1,200,000 = \$58,800,000$.

6

Improve collection of sales tax on remote sales – E-Fairness and Streamlined Sales Tax

The most significant tax compliance and collection issue facing Florida and other states is the application of sales and use taxes to sales by remote vendors. Remote vendors are those without a physical presence—or nexus—in a state. These transactions can be performed by telephone, mail and internet.

The U.S. Supreme Court has ruled (*Bellas Hess v. Illinois* and *Quill Corp. v. North Dakota*) that a retailer must have a physical presence in a state for that state to require the out-of-state retailer to collect sales and use taxes from in-state purchasers. Therefore, when a Floridian makes a purchase from a seller located outside of Florida, the remote seller does not have to collect the sales and use tax at the time of the transaction, although the tax is still legally owed to the State by the Floridian.

However, few Florida residents know that they are required to pay the sales tax owed on remotely conducted transactions directly to the Florida Department of Revenue (DOR), and even fewer actually make such payments. This situation is costing the State and local governments hundreds of millions of dollars.

Moreover, not requiring internet sellers to collect sales tax not only erodes Florida's tax base, but also creates an unfair advantage over “bricks-and-mortar” retailers and “clicks and bricks” retailers with both online and traditional stores. A 6 to 7.5 percent price break is hard to overcome for Florida's retailers.

Due to a lack of State specific e-commerce data, estimates of the sales tax revenue on remote sales that are not collected vary. A 2009 study estimates Florida's sales tax losses from uncollected e-commerce sales at \$803.8 million for FY2011-12.¹ Another report

¹ Bruce, Donald and Fox, William. “State and Local Government

in 2011 report estimated tax revenue losses of \$454 million in 2012.²

While federal action is needed to mandate that all remote sellers collect and remit Florida sales taxes, there are two avenues Florida can take to begin collecting some of the taxes due: the Streamlined Sales and Use Tax Agreement (SSUTA) and “E-Fairness” or “affiliate” legislation to expand which companies must collect and remit the sales tax.

The SSUTA provides an opportunity for Florida to begin collecting money from a compact of sellers that voluntarily collect the tax and remit to SSUTA states. The SSUTA is the result of the cooperative effort of 44 states, Washington, D.C., local governments, and the business community to simplify sales and use tax laws and minimize costs and administrative burdens on retailers that collect sales tax. It levels the playing field so that local “brick-and-mortar” stores and remote sellers operate under the same rules.

Florida joined the coalition in 2002 but, despite broad support, legislation to bring Florida fully into the SSUTA has not been enacted. Twenty-four other states (representing more than one-third of the nation's population) have passed such a law, with Georgia and Utah being the most recent additions.

Legislative focus in Florida has shifted from SSUTA legislation to “E-Fairness” legislation that expands which companies must collect and remit the sales tax.

This legislation - also known as “affiliate legislation” - provides that a representative of a dealer, in addition to an agent, soliciting or transacting business in a state may cause the dealer to have nexus for mail order sales.

This legislation asserts nexus over remote retailers that are related to in-state companies, such as an out-of-state retailer that holds a substantial interest in an in-state retailer. Further, “click through” provisions assert nexus exists if an out-of-state internet retailer pays an

Sales Tax Revenue Losses from Electronic Commerce.” University of Tennessee. April 13, 2009.

² Arduin, Laffer & Moore Econometrics. “Pro-Growth Tax Reforms & Internet Based Sales.” September 2011.

in-state agent for advertising or referring customers from their website.

There are already more than 1,400 retailers voluntarily collecting and remitting sales tax revenue to SSUTA member states. These retailers have remitted more than \$1.1 billion in sales and use tax revenues to member states, and this amount is rising.³

A revenue estimate of “E-Fairness” legislation has not been developed. **However, if Florida collects one-sixth of the total (based on its population), it could bring in \$55 to \$62 million, an average of approximately \$58.5 million, in additional sales taxes through the SSUTA in 2014.**

Given the rate of growth in internet sales transactions, it is not unreasonable to assume a 10 percent growth per year in collections thereafter. Moreover, State and local governments will collect significantly more revenue if the federal government requires remote retailers to collect and remit the sales and use tax.

Recommendation: Adopt both “E-Fairness” legislation and legislation to become a full member of the Streamlined Sales and Use Tax Agreement (SSUTA). SSUTA legislation should be drafted as previously recommended by Florida TaxWatch.⁴ This would begin leveling the playing field for Florida businesses and begin collecting some of the revenue legally due. Any additional revenue should be used to offset another tax that is currently imposed on Floridians.

³ Information provided by the Executive Director of the Streamlined Sales Tax Governing Board, Inc. 2012.

⁴ Florida TaxWatch. “How to Make Streamlined Sales Tax Legislation Revenue Neutral.” April 2009.

7

Improve eligibility requirements for Bright Futures Scholarship (BFS) program recipients

The Bright Futures Scholarship (BFS) program provides postsecondary funding based on academic achievement. While the program is popular and generally considered successful, its total cost reached a record high of \$429 million in FY2008-09. Since the Government Cost Savings Task Force first began recommending modifications to the BFS program, several statutory changes have taken place that have helped control the cost of the BFS program.¹ Despite a decrease over the past few years due to these changes, the cost of the program has still skyrocketed since its inception in 1997, rising from \$70 million to more than \$316 million annually (an increase of more than 350 percent).² There are viable options to enhance the integrity of the BFS program and achieve critical State goals while also reducing costs.

A: Increase the grade-related eligibility requirements to obtain a BFS

The grade-related eligibility requirements should be changed to limit BFS awards only to students in the top percentile of their high schools based on their grade point average (GPA). In addition to the recent increases in the standardized test score eligibility requirement for students enrolling in the 2012-13 academic year, increasing the grade-related eligibility requirements would generate cost savings and heighten the merit of the scholarship.

¹ The 2012 Legislature required students to begin using their BFS within two years of leaving high school, instead of the previous three-year requirement. The Legislature also clarified that students enrolled in the Spring/Summer University of Florida pilot program are authorized to receive a BFS for only two semesters each year, and the Legislature limited the allowable uses for the Bright Futures Gold Seal Vocational Scholarship. The 2010 Legislature increased standardized test score requirements to qualify for the program, lessened the number of credits covered, and reduced the time of utilizing the award from seven years to five years.

² "Education Estimating Conference on Student Financial Aid." The Florida Legislature's Office of Economic and Demographic Research. November 14, 2012.

Using a grade-related threshold for the award of only the top 10, 15, 20, or 25 percent of high school graduates (based on GPA) would save the State millions of dollars annually, allow for more accurate and timely fiscal projections, and bring further credibility to the merit-based award. Estimated savings from increasing the grade-related eligibility requirement (assuming the same standardized test score requirements) are shown in the table below.

Estimated Savings for Tightening Grade-Related BFS Requirements by Limiting Eligibility to the Top Percentiles of High School Graduates (Based on Current Academic Year 2012-13 Initial BFS Recipients)³

	Students Receiving Initial BFS Payments Under the Proposal	Potential Cost Savings
Top 25% in GPA (Estimated)	41,852	\$7.5 million
Top 20% in GPA (Estimated)	33,482	\$23.5 million
Top 15% in GPA (Estimated)	25,111	\$39.4 million
Top 10% in GPA (Estimated)	16,741	\$55.4 million

Note: These estimates are based on data from the Florida Legislature's Office of Economic and Demographic Research (EDR): The current number of students receiving initial payments for this analysis is 45,794 of the 167,410 graduates (27.4 percent); the average cost per award is \$1,907.72 (which is derived from dividing the total program cost of \$316.4 million by the total number of recipients, which is 165,852). The formula for the cost savings estimates is the estimated number of students receiving initial payment under the proposed change subtracted from the number currently receiving initial payments based on the EDR figures multiplied by the current average award amount (\$1,907.72). Estimates of number of students receiving payment under proposed eligibility requirements assume 100 percent of eligible student actually receive payment, however, historically approximately 80 percent of students eligible for the award actually accept it, so the savings amount would likely be higher. Furthermore, the 2012 Talented 20 graduating class includes 28,417 eligible students, a figure considerably lower than the number of students reflected/projected in the top 20 percent listed in the BFS chart above.

³ *Ibid.*

If Florida were to continue to increase the eligibility requirements for receiving a BFS by tightening the grade-related threshold, the State **could save between \$7.5 million and \$55.4 million in FY2013-14**, depending on the percentile selected. Restricting the number of new graduates eligible for the scholarships would not only allow significant funding to be redirected within the educational system, it would also help return the program to its intended high-merit reward status.

B: Limit the Florida Academic Scholars (FAS) Award to only STEM Majors

Those employed in the fields of science, technology, engineering, and math (STEM) drive innovation and competitiveness by generating new ideas, companies, and industries. According to Florida Trend magazine, “high-skilled, high-paid jobs are available in Florida, but recruiters and employers often are unable to find qualified candidates locally.” Over the past 10 years, STEM fields grew three times faster than non-STEM fields. As a result, STEM graduates are also less likely to experience joblessness than other graduates. According to an issue brief by the U.S. Department of Commerce, STEM occupations are projected to rise 17 percent by 2018 (compared to 2008). The brief also found that STEM workers earned significantly higher wages, with an average of 26 percent more than non-STEM professionals.⁴

Increasing the number of STEM graduates is a key element to helping Florida’s economy recover. Last year, only 10,273 students graduated with bachelor’s degrees in STEM majors out of 54,614 total degrees awarded by Florida’s 11 State universities. Despite only 19 percent of students graduating with STEM degrees, the number of open high-tech jobs is up 9 percent from a year ago, with 64,000 jobs available in STEM fields.⁵

⁴ Langdon, David, et al. “STEM: Good Jobs Now and for the Future. ESA Issue Brief #03-11.” U.S. Department of Commerce. July 2011.

⁵ Haughney, Kathleen. “Florida has STEM Jobs but Not Enough Graduates to Fill Them.” Orlando Sentinel. October 27, 2012.

The State could incentivize students to pursue STEM degrees by limiting eligibility for the highest scholarship level available through the BFS program, the FAS award, to only those students who declare a STEM major (and are otherwise qualified under the eligibility standards). Students who are eligible for the FAS award upon graduation of high school but do not declare a STEM major should still be eligible for a BFS award, however, the award amount should be reduced to the lower award level. In FY2011-12, the FAS award was disbursed to 39,793 students with an average award amount of \$2,598; the second level scholarship award was disbursed to 131,134 students with an average award amount of \$1,720.⁶ **For every 10 percent of students who are adjusted from the FAS award to the lower award amount (because they did not declare a STEM major), Florida saves approximately \$3.5 million annually.**⁷

Recommendation: Improve the Bright Futures Scholarship program eligibility requirements to focus on the top high school graduates and to focus taxpayer investments on those students who pursue STEM degrees.

⁶ “Education Estimating Conference on Student Financial Aid.” The Florida Legislature’s Office of Economic and Demographic Research. November 14, 2012.

⁷ The cost savings estimate (\$3,493,562) is determined by the difference in the amount of the awards times 10 percent of those receiving the top award.



Expand electronic monitoring as an alternative to traditional incarceration for offenders serving prison sentences

As described in Recommendation #5, “Expand electronic monitoring as a tool to divert non-violent offenders from prison,” electronic monitoring is a cost-effective alternative to incarceration that reduces the likelihood of failure under community supervision by 31 percent.¹

Diverting non-violent inmates from prison and instead expanding the use of electronic monitoring can save millions of dollars annually while also reducing rates of recidivism. Additionally, cost savings can be realized by releasing non-violent inmates at different levels of their incarceration and utilizing electronic monitoring throughout the remainder of the sentence versus keeping them in prison until they serve 85 percent of their sentences.

Given varying rates of success (ranging from 10 percent success to 100 percent success), **Florida would save between \$4.4 million and \$43.8 million in FY2013-14 if electronic monitoring were used for the last 35 percent of the sentence.**²

Non-Violent Offenses by “Offense Group”³

- Burglary, Structure
- Buglary, Dwelling
- Burglary, Trespass/Other
- Grand Theft, Other
- Grand Theft, Automobile
- Stolen Property
- Forgery/Counterfeiting
- Worthless Checks
- Fraudulent Practices
- Other Theft/Property Damage
- Drugs, Manufacture/Sale/Purchase
- Drugs, Trafficking
- Drugs, Possession/Other
- Escape
- DUI, No Injury
- Traffic, Other
- Racketeering
- Pollution/Hazardous Materials

Recommendation: Expand authority for the use of electronic monitoring as part of a reentry program at the end of a prison sentence.

CRIMINAL JUSTICE - \$43.8M

¹ Florida TaxWatch. “Report and Recommendations of the Florida TaxWatch Government Cost Savings Task Force for Fiscal Year 2012-13.” (pgs. 18-19).

² The savings are calculated for the period between July 1, 2011 and June 30, 2012, using a cross section of the inmate population in custody of the DOC as of July 1, 2010. An average per diem cost of \$52.00 is used for inmates housed in a public institution and an average per diem cost of \$45.53 is used for inmates housed in a private institution. An average per diem cost of \$8.94 is used for electronic monitoring. For more information, see *Ibid.*

³ Non-violent crimes as defined by The White House Office of National Drug Control Policy, 2012.

9

Improve the process for identification and disposal of underutilized and surplus land and assets

The State owns thousands of properties utilized for many purposes including farms, forests, parks, Florida Department of Transportation easements, vacant lands, schools, universities, office buildings, and warehouses.¹ While many lands are used for essential purposes (including conservation), the State also owns numerous properties that are not needed by State government or are not being used to their highest and best potential (not including conservation lands), leaving the taxpayers responsible for unnecessary costly annual maintenance and upkeep.

Following recommendations issued by Florida TaxWatch in January of 2009 and March of 2010, significant steps were made to identify and dispose of surplus properties owned by Florida. There is now a comprehensive database of State lands that identifies State-owned buildings that are candidates to be sold to generate revenue each year. Since this initiative began in 2009, more than 60 properties valued at approximately \$9 million have been disposed of.²

Since the recent reforms, the procedure for identifying and disposing of surplus land and assets has improved significantly; however, the process is still disjointed. Although multiple agencies are involved in the process, it is not based on a highly integrated portfolio view of Statewide and enterprise-wide needs. Efforts are

¹ Florida Department of Environmental Protection and Florida Department of Management Services. "Disposition of State Lands and Facilities 2011 Annual Report." October 1, 2011.

² From July 2009 to March of 2011, 35 properties were disposed of with an added value to the State of \$6.7 million. Source: Florida Department of Environmental Protection and Florida Department of Management Services. "Disposition of State Lands and Facilities Interim Report." March 1, 2011. From April 2011 to June 2011, nine properties were disposed of with an added value to the State of over \$600,000. Source: Florida Department of Environmental Protection and Florida Department of Management Services. "Disposition of State Lands and Facilities 2011 Annual Report." October 1, 2011. From July 2011 to June 2012, an additional 18 properties were disposed of with an added value to the State of more than \$1.5 million. Source: Florida Department of Environmental Protection and Florida Department of Management Services. "Disposition of State Lands and Facilities 2012 Annual Report." October 1, 2012.

currently underway to modernize Florida's facilities management plan, which could potentially identify additional assets for disposal. Florida also needs to pursue a portfolio view of assets, focusing on achieving and ensuring the highest and best use of all land and assets, both among government agencies and other taxpayer-funded entities.

Furthermore, while the process attempts to protect taxpayers' interests by allowing for the transfer of assets from one government entity to another, the process for disposition is cumbersome and needs reform and streamlining to allow the highest return to the State in a reasonable period of time.

As of July 2012, the Florida Department of Environmental Protection (DEP) and the Florida Department of Management Services (DMS) have identified approximately 600 properties as surplus or possible surplus, valued at approximately \$169 million, \$155 million of which are in the "active category."³ An improved process for disposal would increase the revenue generated. If half of the property in the "active category" were sold for half of its appraised value, it would **generate approximately \$39 million in FY2013-14** (assuming no upfront costs) and would achieve additional immediate and annually recurring cost savings through reduced maintenance and upkeep fees. Furthermore, an improved review process (that would better identify non-conservation surplus land and assets) and a streamlined disposal procedure would generate additional revenue in the next few years.

Recommendation: Provide resources and authority to the DEP and the DMS to identify underutilized and surplus State properties, to review each as to its highest and best potential, and to dispose of those State properties not being used to their highest and best potential in an expeditious manner.

³ "Active Category" is defined as "The property is in the surplus process (being noticed, value determination, available for sale, or is actively being marketed for sale." Source: *Ibid.* ("Disposition of State Lands and Facilities 2012 Annual Report." pg. 4.)

10

Increase the use of electronic time and attendance systems

Manually-reported hours through traditional timesheets are prone to human error and often only record an employee's scheduled work hours rather than actual employee arrival and departure times. An emerging trend is the use of electronic time and attendance systems, which automatically track when employees arrive at and leave work.

Electronic time and attendance systems enhance transparency in workforce payment records, promote efficiency by reducing administrative costs and preventing disputes in compensation, and avoid costs by reducing payroll errors, especially in the calculation of overtime.

An electronic time and attendance system could also automate the scheduling system. Automated scheduling systems are able to reduce overtime in an organization by an average of 2 to 3 percent, according to the American Payroll Association.¹ Therefore, implementing an electronic time and attendance system throughout State government could reduce total overtime costs.

Additionally, accurately recording employee time reduces liability for unused leave, which is costly to taxpayers, because when employees claim their accrued time, it is paid out at their current rate of pay (which is typically higher than the rate at which they accrued it). Electronic time and attendance systems build accountability by precisely tracking when leave is taken and by creating visibility that allows managers to ensure work time is not overstated.²

¹ This statistic is based on average U.S. corporate employee mix, which typically has a much higher percentage of exempt status employees.

² Pike, Jeff and Hammond, Ryan. "Kronos Benefit Realization Report Findings and Recommendations Prepared for the Florida Department of Children & Families. Florida State Hospital and Northeast Florida State Hospital." 2012.

Electronic time and attendance systems have already been shown to avoid costs in Florida State government. The Florida Department of Children and Families (DCF) has avoided \$6 million in costs over two years through the implementation of such a system in two State hospitals with approximately 2,600 employees total.³

Florida can increase efficiency and reduce costs by expanding the DCF electronic time and attendance system initiative for the entire State workforce. Based on DCF's experience, **Florida could avoid \$28.9 million in costs if the system were expanded to cover 25,000 public employees.**⁴ This cost avoidance estimate does not include the cost of implementing or maintaining the system.

Recommendation: Implement electronic time and attendance systems across all State agencies.

³ *Ibid.*

⁴ \$6 million in avoided costs/2,600 employees/2 years= \$1,154/employee/per year.

11

Audit the Retiree Drug Subsidy (RDS) Program and convert to an Employer Group Waiver Program (EGWP)

The cost of the State Employee Group Health Program is rising rapidly. Total program expenses are expected to grow from \$1.79 billion in FY2011-12 to \$2.44 billion in FY2015-16.¹ These estimates do not include the potential impact of the Patient Protection and Affordable Care Act, which could add \$127.5 million in expenses in FY2015-16.² The DMS reported that increasing program costs are unsustainable and must be addressed, and that “even a 1 percent expense reduction will save millions of dollars.”³

More than 28,000 Medicare eligible retirees participate in the health program, with the majority (83.4 percent) enrolled in the PPO Standard Plan. The plans for retirees are similar to those for active employees, except that Medicare retirees contribute 66 percent of the cost, which results in a liability for the State under Governmental Accounting Standards Board (GASB) accounting rules.⁴

For Medicare enrollees in the PPO Standard Plan, the State receives reimbursement from the federal Retiree Drug Subsidy (RDS) Program. This program was created in 2006 under Medicare Part D to provide an incentive for employers to continue to offer retirees drug coverage. These subsidies cannot be used to decrease GASB liability.

An option for reducing costs that is gaining popularity in both the public and private sectors is to convert the RDS Program to an Employer Group Waiver Program (EGWP). Under EGWP—which is fully approved

by the Centers for Medicare and Medicaid Services (CMS)—the drug program would be administered by a private entity. Additional federal subsidies and pharmaceutical company discounts are available through EGWP, resulting in lower costs. **Florida’s subsidy under Part D could increase by 30 percent, saving Florida \$225 million over nine years, an average of \$25 million per year.**⁵ Another estimate is that average savings can be as much as \$840 per beneficiary, which would total \$20 million in Florida.⁶ Another benefit is that, unlike the current program, subsidies under EGWP can be reflected under GASB.

The current retiree drug plan benefit design would not change, and impact to retirees would be minimal. The 2011 State budget included proviso language directing the DMS to produce a report containing “different plan alternatives and options for the State employee health insurance program.” This report included EGWP conversion in its “conservative” and “moderate” approaches to reducing costs.⁷

To further increase savings, the drug program conversion could be preceded by an audit of the current RDS Program. CMS allows for audit of RDS payments back to 2006. **Based on past experience, Florida could recover \$25 million in underpayments currently due.**⁸ Such an audit could be performed by a private vendor at no cost, with compensation coming from a percentage of the recoveries.

Recommendation: Audit the Retiree Drug Subsidy Program at no risk to the State, with compensation contingent on recoveries. After audit, the program should be converted to an Employer Group Waiver Program to increase the subsidies available under Medicaid Part D and reduce the State’s Governmental Accounting Standards Board liability.

1 Self-Insurance Estimating Conference. “State Employees’ Group Health Self-Insurance Trust Fund.” August 20, 2012.

2 Self-Insurance Estimating Conference. “Impact on the State Health Insurance Program of the Patient Protection and Affordable Care Act.” August 20, 2012.

3 Florida Department of Management Services and Buck Consultants. “Strategic Health Plan Options for the State of Florida.” September 29, 2011.

4 *Ibid.*

5 Praxis Benefits. “Florida Retiree Health Care Plan.” August 20, 2012.

6 May, Steven P. and Liner, David M. “EGWP/wrap: Why Now?” Millman White Paper. September 2011.

7 Florida Department of Management Services and Buck Consultants. “Strategic Health Plan Options for the State of Florida.” September 29, 2011.

8 Praxis Benefits. “Florida Retiree Health Care Plan.” August 20, 2012.

12 Expand prison work release programs for low-risk inmates

Florida's work release programs allow selected inmates who are pre-screened as low-risk to work at paid employment in the community and live at work release centers outside of prison during the last 15 months of their sentences. Only pre-screened inmates who have been in custody for at least 60 days and have remained disciplinary report free for at least 60 days prior to placement can be classified as community custody. Inmates convicted of sexual battery or those serving a fourth (or higher) commitment to prison are ineligible.¹

Housing inmates at work release centers is significantly less costly than housing them in a regular prison facility (\$25.84 less per day).² Expanding the work release program to include additional inmates who are currently on the waiting list could produce significant savings for Florida. Fifty-five percent of inmate wages must be paid to the DOC for subsistence. The remaining earnings are used to pay retribution, court ordered payments, child support, and inmates' personal incidentals.³

Additionally, work release reduces recidivism. According to experts, many inmates recidivate at least partially because they are often released from prison with only cursory transportation and small amount of money.⁴ Ten percent of net pay is mandatory for the inmate's savings account, allowing inmates to have some means available to restart their lives.⁵

¹ Florida Department of Corrections. "Frequently Asked Questions Regarding Work Release."

² Collins Center for Public Policy Report. "Smart Justice: Findings and Recommendations for Florida Criminal Justice Reform." February 2010. Note: According to the report, the average cost of housing an inmate at a work release center is \$26.16; the average cost of housing an inmate in a prison facility is about \$52.00 (even when work release centers are excluded from the calculation).

³ Florida Department of Corrections. "Frequently Asked Questions Regarding Work Release." See also: The Florida Senate. "SB 1390. Supervised Reentry Programs for Inmates." March 22, 2011.

⁴ Stravinskaskas, Stephanie. "Lower Crime Rates and Prisoner Recidivism." Honors College Thesis. May 1, 2009. Available at digitalcommons.pace.edu/honorscollege_theses/81/

⁵ Florida Department of Corrections. "Frequently Asked Questions Regarding Work Release." See also: The Florida Senate. "SB 1390. Supervised Reentry Programs for Inmates." March 22, 2011.

Research shows that public safety is not threatened by work release programs. The inmate escape rate of the offenders placed in these programs is only 1 percent, and nearly 70 percent are recaptured within 24 hours and 97 percent within a few months.⁶

The key step to achieving such savings is to incorporate more eligible inmates into the program. The DOC should rescind the informal policy of holding one prison bed in reserve for every work release bed and capping work release at 4 percent of the inmate population.

Allowing nonviolent inmates to serve the final portion of their sentence in a work release program is more cost effective than a regular prison facility. **Given varying rates of success** (ranging from 10 percent success to 100 percent success), **the State could save approximately \$2.1 million to \$20.9 million annually** if 35 percent of the maximum sentence is completed in work release programs.⁷

Recommendation: Establish a process that immediately: 1) expands the work release program to include those eligible individuals who are currently on waiting lists; 2) ensures that the capacity of the program is set at the maximum sustainable level; and 3) expedites the movement of individuals into work release so that the average population in each program is maintained as close to full capacity as possible.

⁶ Florida Department of Corrections. "Inmate Escapes Fiscal Year 2011-2012."

⁷ The estimates are calculated for the period between July 1, 2011 and June 30, 2012, using a cross-section of the inmate population in custody of the DOC (as of July 1, 2010). An average per diem cost of \$52.00 is used for inmates housed in a public institution and an average per diem cost of \$45.53 is used for inmates housed in a private institution. An average per diem cost of \$30.80 is used for work release facilities. Those individuals who are already housed in work release facilities are not included in the analysis and additional upfront costs of expanding work release are not factored into cost savings. See: Florida TaxWatch. "Report and Recommendations of the Florida TaxWatch Government Cost Savings Task Force for Fiscal Year 2012-13." (pgs. 20-21).

13

Improve accountability for State grants

In FY2011-12, nearly \$21 billion of the State's budget was spent on "grant agreement payments to other governments, not-for-profit entities and for-profit entities where the grant funding originates from the federal government, State financial assistance or other grant contributions." Ensuring the effectiveness of these agreements is critical to achieving maximum taxpayer value.¹

The agreements for such grants are generally governed by Chapter 215, Florida Statutes, which requires that each agreement contain a provision "specifying a scope of work that clearly establishes the tasks" and "dividing the agreement into quantifiable units of deliverables that must be received and accepted in writing by the agency before payment... [including] the required minimum level of service to be performed and the criteria for evaluating the successful completion of each deliverable."² However, there are no other requirements for such agreements under this statute, including financial consequences for non-performance.³

Additionally, certain effective monitoring practices (such as onsite or desk reviews, periodic vendor/provider reporting, and verification of vendor/provider invoices) ensure accountability for all types of agreements.

To make certain that these practices are being performed, the State (through the Department of Financial Services [DFS]) has developed training programs for agency contract managers and a 2010 law now requires such training for contract managers handling agreements worth \$35,000 or more. Expanding the training requirement to include grant agreement managers handling agreements worth \$35,000 or more would further increase taxpayer value.

If improvements in grant agreement design and management led to a savings of one tenth of 1 percent of total annual grant spending, taxpayers would save \$20 million annually.

Recommendation: Expand the statutory requirements for State grants within Chapter 215 and require training for agency grants managers responsible for agreements of \$35,000 or greater (as is currently required for contract managers).

¹ Information provided by the Department of Financial Services, 2012.

² Florida Statute 215.971, retrieved from www.flsenate.gov/Laws/Statutes/2012/215.971

³ For example, the statutory requirements for contracted services agreements (applicable to service contracts worth \$35,000 or more) under Florida Statute 287.058 include that the agreement must specify the precise financial consequences the contractor is subject to by the agency upon failure to perform in accordance with the contract and the criteria and final date by which such criteria must be met for completion of the contract. Source: Florida Statute 287.058.

14 Limit Special Risk class membership to frontline employees

The FRS consists of six retirement classes with varying benefits offered to each class member. The State pays required contributions based on a percentage of an employee’s salary, but contribution rates vary by employee classification.

Contribution Rates Effective July 1, 2012

FRS Membership and Class	Employee Contribution Rate	Employer Contribution Rate	Total Contribution Rate
Regular	3.00%	5.18%	8.18%
Special Risk	3.00%	14.90%	17.90%
Special Risk Administrative Support	3.00%	5.91%	8.91%
Legislators, Governor/Lt. Governor and Cabinet, and State Attorneys/ Public Defenders	3.00%	8.53%	11.53%
Senior Management Service Class	3.00%	6.30%	9.30%
Elected Officers' Class	3.00%	10.23%	13.23%

Source: Florida Department of Management Services. “Contribution rates effective July 1, 2012.”

Special Risk classification was created to recognize that the duties performed by some employees are especially laborious and physically demanding, and therefore these employees may not be able to work to a normal retirement age without endangering themselves or the public. Anticipating these members would retire a few years earlier than Regular Class members, the Legislature set the Special Risk accrual rate higher than the Regular Class accrual rate so both classes would be entitled to the same benefits upon retirement.

When the FRS was created in 1970, Special Risk Class membership was limited to law enforcement, firefighters, and corrections officers.¹

Since then, the Special Risk classification has grown to include individuals who may not be exposed to the same level of risk.

For example, in 2001 Florida Statue 121.0515 was expanded to allow members in the following occupations into the Special Risk Class if they spent 75 percent of their time with patients or inmates in a correctional or forensic facility or institution:

- dietitians;
- public health nutrition consultants;
- psychological specialists;
- psychologists;
- senior psychologists;
- regional mental health consultants;
- the Psychological Services Director of DCF;
- pharmacists;
- senior pharmacists;
- dentists;
- senior dentists;
- registered nurses;
- senior registered nurses;
- registered nurse specialists;
- clinical associates;
- advanced registered nurse practitioners;
- advanced registered nurse practitioner specialists;
- registered nurse supervisors;
- senior registered nurse supervisors;
- registered nursing consultants;
- quality management program supervisors;
- executive nursing directors;
- speech and hearing therapists; and
- pharmacy managers.

¹ Madden, Ed and Vaughn, Linda. “Several Options Are Available for Modifying the Florida Retirement System’s Class Structure to Reduce System Costs. Report 10-15.” The Florida Legislature’s Office of Program Policy Analysis and Government Accountability. January 2010.

In 2008, Special Risk classification was yet again expanded to include:

- forensic technologists;
- crime laboratory technicians;
- crime laboratory analysts;
- senior crime laboratory analysts;
- crime laboratory analyst supervisors;
- forensic chiefs; and
- forensic services quality managers.²

As the definition of Special Risk has expanded, many of these members are in occupations in which they can be expected to work to a normal retirement age.

An analysis by USA Today determined that the expansion of Special Risk classification is costing Florida taxpayers \$15 to \$30 million annually. According to the report, the taxpayers' bill for Special Risk benefits is up 58 percent since 1993, totaling \$903 million in 2011. Costs for the Regular Class have only increased by 14 percent over the same time period.³

OPPAGA estimated in January 2010 that increases in benefits and employee inclusion in the Special Risk classification has led to cost increases of \$2 billion, even though there has been little change in the Regular Class.⁴

Classifying these employees as Special Risk is undermining the principle of the funds for employees who are in combat duty occupations and protecting citizens on the frontline daily. Special Risk classification should be limited to its originally defined members: law enforcement, firefighters, and corrections officers.

Based on a recent OPPAGA estimate, a 10 percent reclassification of Special Risk Class members to Regular Class could save more than \$41.5 million, of which approximately \$20 million would be realized by the State.⁵

Recommendation: Amend Florida Statue 121.0515 to redefine positions that are considered Special Risk to be only law enforcement, firefighters, and corrections officers.

² Florida Statue 121.0515

³ Frank, Thomas. "States Expand Lucrative Pensions." USA Today. February 8, 2011.

⁴ Madden, Ed and Vaughn, Linda. "Several Options Are Available for Modifying the Florida Retirement System's Class Structure to Reduce System Costs. Report No. 10-15." The Florida Legislature's Office of Program Policy Analysis and Government Accountability. January 2010.

⁵ Munley, Susan and Woerner, Rich. "The Legislature Could Consider Several Options for Modifying State Employee Compensation. Report No. 10-31." The Florida Legislature's Office of Program Policy Analysis and Government Accountability. March 2010.

15

Allow placement of advertising and sponsorship on State publications, properties, and vehicles

Mass transit systems have long been partially funded through the use of advertisements in terminals, stations, and on both the inside and outside of vehicles. Similar methods could be used to generate revenue through other publicly held assets.

Parks and other public plazas would be especially effective for displaying ads. Sarasota County authorized the use of advertisements on county parks and beaches, and could be selling the naming rights to some properties.

The Borough of Brooklyn, New York has looked into placing advertisements on the city's public wastebaskets. Allowing even modest advertising on the numerous State properties could yield significant revenue. Additionally, the State has a fleet of more than 25,000 motor vehicles and watercraft.

Excluding the many law enforcement vehicles, the State operates numerous vehicles that could feature unobtrusive advertising or sponsorship with no impact on function or efficiency.

Some current State publications, such as the Florida Driver's Handbook, include advertisements to offset the costs of publishing such documents. Agencies should review whether including advertisements in publications under their purview could pay for some or all of the costs of producing and publishing.

During the 2011 Legislative session, in an attempt to raise additional revenue for transportation, legislation (SB 560 and HB 313) was filed that would have authorized the sale of advertising on State-owned transportation property to private sector entities.¹ Several conflicts between the legislation and existing State and federal law were identified, but the idea of ad revenue-producing transportation property should be explored.

The 2012 Legislature passed SB 268, which authorized the DEP to enter into agreements with not-for-profit or private-sector entities allowing those entities to sponsor signage on State-owned greenway and trail facilities in the form of naming rights and commercial displays. Eighty-five percent of revenues will be used to operate state trails and greenways, while 15 percent will be given to the State Transportation Trust Fund for use in the Florida Traffic and Bicycle Safety Education program and the Florida Safe Routes to School program.²

Many states are recognizing the opportunity for revenue generation through advertising on the exterior of school buses. At least eight states - Texas, Massachusetts, Nevada, Utah, Colorado, Tennessee, New Mexico, and Arizona - have all passed laws allowing advertising on public school buses. Surveys of the states indicate that bus ads generate \$400 to \$500 in revenue per school bus annually.³

Fiscal analysis of Utah's bill, passed in the 2011 Legislature, estimated that each bus could generate as much as \$750 to \$1,500 annually, for a total of \$3.3 million each year.⁴ Ads may not promote drugs, alcohol, gambling, political or religious issues, and may not be connected to sexual activities.

¹ The Florida Senate. "SB 560. Sale of Advertising." March 4, 2011.

² The Florida Senate. "SB 268. Sponsorship of State Greenways and Trails." February 14, 2012.

³ D'Amico, Diane. "Schools get regulations on how to put ads on buses, raise revenue." Press of Atlantic City. May 18, 2012. Available at www.pressofatlanticcity.com/news/breaking/schools-get-regulations-on-how-to-put-ads-on-buses/article_4d51ec4a-a065-11e1-82d6-001a4bcf887a.html

⁴ State of Utah. "HB 199. Advertisements on School Buses." 2011.

While advertising on the inside of school buses is permitted in Florida, the 2012 Legislature considered a bill (HB 19), that would have authorized school districts to sell advertisements on the exterior of school buses as well to raise revenue.

If signed into law, this bill would have required no expenditures by the State and would have had a significant positive fiscal impact. School districts could have used 50 percent of the revenue generated for school district transportation, 40 percent for other programs as determined by the school district, and 10 percent for driver's education programs.⁵ As of October 2012, local governments in Florida own 18,632 school buses.⁶

Based on a conservative estimate, Florida could generate \$9.3 million per year in revenue by allowing advertisements on the exterior of school buses alone. Revenues could reach \$27.9 million if Utah's estimate is realized in Florida, placing average annual revenues between the two estimates at approximately \$18.6 million.⁷

Additionally, the State should explore the opportunity to generate revenue through leasing cell towers on State lands and by advertising on other State vehicles and properties.⁸

Recommendation: Allow advertisements appropriate for children on the exterior of school buses and permit all agencies to raise revenues by displaying advertisements on or utilizing sponsorships of State-owned properties, vehicles, and publications, where appropriate.

5 The Florida Senate. "HB 19. Public School Buses." December 13, 2011.

6 Information provided by the Florida Department of Education. October 2012.

7 Formulas are: Total number of school buses (18,632)*Average revenue generating estimate (\$500) = \$9,316,000. Total number of school buses (18,632)*Utah's revenue generating estimate by fiscal analysis of HB 199 (\$1,500) = \$27,948,000.

8 Florida could also consider advertising on changeable messaging signs; the signs that stretch horizontally over the highway and show travel times. This would require approval from the Federal Highway Administration through modification of Florida's Manual on Uniform Traffic Control Devices, Section 2L.01, which specifies that advertising messages shall not be displayed on changeable message signs; Florida must comply with this manual to receive federal highway funding. The Florida Department of Transportation is currently pursuing advertising on 511 signs, the blue highway signs that inform motorists that they can dial 511 to receive traffic information. Georgia uses advertising on its 1,000 511 signs to run its 511 program, saving taxpayer dollars. Revenues from advertising on 511 signs are estimated at \$100 per month per sign, not including startup costs; revenues also vary depending on sign location and traffic patterns. Source: Information provided by the Florida Department of Transportation. 2012.

16

Provide financial incentives based on controllable wellness indicators to reduce State health insurance costs

Employers are increasingly looking for ways to reduce employee health care costs. Given that an estimated 75 percent of all health care spending is attributed to preventable medical conditions,¹ an emerging trend is to offer incentives to employees based on controllable wellness indicators, primarily tobacco use and body mass index.

According to a study in the peer-reviewed journal *Health Affairs*, private companies with wellness programs have seen a 28 percent decrease in sick leave, a 26 percent reduction in adjunctive health care costs, and a 30 percent reduction in disability and workers compensation costs.² According to the Wellness Council of America, a \$1 investment in wellness programs saves \$3 in health care costs.³ North Carolina estimates the State's health incentive program saves \$2 for every \$1 spent, and Oklahoma estimates their programs saves \$2.30 for every \$1 spent.⁴

However, not all prevention programs are created equally.⁵ Successful wellness programs must focus on encouraging only prevention behaviors that have been proven to reduce undesirable costly outcomes, such as chronic diseases, emergency room visits, and hospital readmissions.

A well designed incentive program for State employees could yield benefits primarily because of the longevity of the employer-employee relationship. State workers tend to remain employed with the State for long periods of time; therefore a wellness program would likely have a high return on investment. The Legislature should enhance and expand current incentives to State and local employees. Following the proliferation of successful wellness programs, Florida's health care and insurance costs will reduce dramatically. **Every 1 percent reduction in Florida's public employee health care expenditures saves \$18 million for the taxpayers annually.**⁶

Recommendation: Implement a program to provide incentives and disincentives for State employees based on controllable wellness indicators.

HEALTH CARE - \$18M

1 U.S. Corporate Wellness, Inc. "Get Well. ROI-Based Analysis of Employee Wellness Programs." 2012. Available at www.uscorporewellness.com/wp/wp-content/uploads/2011/12/whitepaper.pdf

2 Iglehart, John. "Influences on the Health of Populations: A Closer Look." *Health Affairs*. Volume 21. No. 2. March 2002. Available at content.healthaffairs.org/content/21/2/7.full.pdf+html

3 Good, Crystal. "Wellness Matters." *Wellness Councils of America*. 2006. Available at www.welcoa.org/freeresources/pdf/wellness_matters_jk.pdf

4 Hsieh, Jason. "State Employee Health Management Initiatives. Issue Brief." National Governors Association. July 2009. Available at www.nga.org/files/live/sites/NGA/files/pdf/O907HEALTHMGMTINITIATIVES.PDF

5 Numerous studies have concluded that screening costs often exceed savings from avoided treatment because only a small percent of the population would have actually become sick without the preventive measure. Source: Cohen, Joshua T., Nuemann, Peter J., and Weinstein, Milton C. "Does Preventive Care Save Money? Health Economics and the Presidential Candidates." *N Engl J Med*. Volume 358. Issue 7. February 14, 2008.

6 Florida Department of Management Services. "State Group Insurance." September 2012, based on a 1 percent reduction of employee health care expenditures for FY2011-12.

17

Increasing audit coverage and tax compliance

The DOR currently audits only 0.54 percent of its taxpayer accounts, whereas the federal Internal Revenue Service's audit coverage is 1.1 percent for individuals and 1.5 percent for corporations.¹ Increasing the number of auditors – either State employee or private auditors – along with enhancing the State's Certified Audit Program can help insure tax compliance and collect more of the revenue currently owed to the State.

The State cut a total of 146 tax auditor positions (a 22 percent decrease) between 2001 and 2009. Beginning in 2009, Government Cost Savings Task Force recommendations have called for the State to increase the number of auditors, and since then 50 new positions have been added; however, the number of positions is still far below historical levels. The State would need to hire 386 new auditors (there are currently less than 500) to reach only 1 percent audit coverage.²

When the 25 new auditors were added in 2010 – at a cost of \$1.5 million – the Revenue Estimating Conference estimated they would bring in \$6 million annually in additional State and local taxes.³ **Once fully operational, 50 auditors – which would cost approximately \$3 million – could increase State and local revenues by \$12 million annually.**

Another method to increase audit coverage is to expand the Certified Audit Program, where DOR-certified private Certified Public Accountants (CPAs) perform audits at no cost to the State,⁴ by allowing businesses to participate in the program within a reasonable time after being issued a Notice of Intent to Audit by the DOR.

Changing the rules prohibiting taxpayers from participating in the program once the taxpayer has received a Notice of Intent to Audit would enable the State to increase audit coverage by freeing up existing auditors to conduct additional audits, and therefore the amount of taxes collected, with no additional cost to the State.

Recommendation: Increase the DOR's sales and use tax audit coverage by adding new auditors, creating new State positions, and contracting with private auditors. In addition, expand the Certified Audit Program to allow recipients of Notices of Intent to Audit to use a DOR-certified private auditor in lieu of an audit by the DOR.

1 Internal Revenue Service. "Fiscal Year 2011 Enforcement and Service Results." Available at www.irs.gov/pub/newsroom/fy_2011_enforcement_results_table.pdf

2 Florida TaxWatch. "Report and Recommendations of the Florida TaxWatch Government Cost Savings Task Force for Fiscal Year 2012-13." (pg. 126).

3 Florida Revenue Estimating Conference. "Impact Conference on CS/HB 5801." March 29, 2010.

4 The Certified Audit Program is a cooperative venture of the Florida Institute of Certified Public Accountants and the DOR designed to enhance the State's ability to conduct sales and use tax audits. The certified audit, which is an extension of the DOR's voluntary self-disclosure program, allows a taxpayer to use a private auditor by hiring a DOR-certified CPA audit firm to conduct the audit in lieu of the DOR. This voluntary compliance by the taxpayer is incentivized to encourage a business to participate by: waiving all penalties; abatement of the first \$25,000 in interest, and 25 percent of any interest over \$25,000; and shielding the taxpayer from any further sales and use tax audits by the DOR for the period that the sales and use tax audit was conducted. Furthermore, it allows the taxpayer to have more control of the audit process, such as the ability to schedule it at the least disruptive time, and hiring the DOR-certified CPA is tax-deductible as a business expense.

18

Expand evidence-based literacy, education, and vocational training programs

While the DOC strives to reduce recidivism, approximately one-third of inmates are incarcerated again within three years of release. These statistics are attributable, at least in part to the fact that Florida has not focused sufficient resources in preparing inmates during their previous incarcerations to succeed upon release through prison-based programming such as substance abuse treatment, education and vocational training, and transitional release planning.

Florida’s DOC reported 49.7 percent of DOC inmates (47,989) in FY2010-11 were tested as reading at or below the sixth grade level and roughly six out of every 10 inmates (64 percent) did not possess GED Test Prep literacy skills, which translates to less than the ninth grade level.¹

One proven way to reduce recidivism is through the expansion of evidence-based literacy, education, and vocational training programs for inmates: Inmates who earn a GED before they are released from prison recidivate 7.9 percent less often than inmates overall. Even more substantially, inmates who receive vocational certificates are 17 percent less likely to return to prison than those without certificates.²

In FY2010-11, the DOC awarded 2,930 GED certificates, a 123 percent increase over the number of certifications given in FY2006-07 (1,313). Likewise, there were 2,217 vocational certificates awarded in FY2010-11, which represents a 20 percent increase in the number of vocational certificates earned by inmates between FY2009-10 and FY2010-11 alone.³

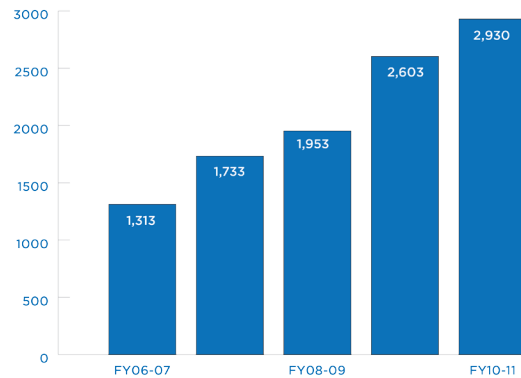
¹ Florida Department of Corrections. “2010-2011 Agency Annual Report-Education.”

² Florida Department of Corrections. “2010-2011 Agency Annual Report-GED/Vocational Certificates.”

³ *Ibid.*

While these gains are encouraging, the DOC should continue to look for ways to improve the education and skill level of inmates. **According to a recent DOC study, every 1 percentage point decline in the recidivism rate saves approximately \$8 million** because 400 fewer inmates are admitted over a three-year period.⁴

GED Certificates by Inmates (by Fiscal Year)



Source: Florida Department of Corrections. “2010-2011 Agency Annual Report-GED/Vocational Certificates.”

One option for expanding such prison-based programming is through virtual education programs, which can be safely utilized by inmates through the installation of test-taking software (used by online universities and Florida school districts) that prevents students from searching files or the internet. This software could likewise be used by the DOC to ensure inmates are only using the internet for educational purposes.

Recommendation: Expand evidence-based literacy, education, and vocational training programs and look for innovative ways to partner with community colleges, public and private workforce development entities, and online learning programs to improve the education and skill levels of inmates. Additionally, inmates could be incentivized to complete literacy, education, and vocational training programs.

⁴ Florida Department of Corrections. “2009 Florida Prison Recidivism Study. Releases from 2001 to 2008.” May 2010.

19 Expand Florida's use of the Section 340B Drug Pricing Program

The federal Section 340B Drug Pricing Program limits the costs of covered outpatient drugs for federal purchasers and for certain federal agency grantees. Qualified entities that participate in this program realize significant savings on pharmaceutical purchases. Section 340B prices are, on average, 30 to 50 percent lower than drugs purchased through the Minnesota Multistate Contracting Alliance, the group purchasing organization that Florida generally uses.¹ Maximizing use of Section 340B for State drug purchases would produce significant, immediate, and recurring savings.

Although State government is not directly able to purchase drugs through the Section 340B Drug Pricing Program, State agencies can participate through partnerships with Section 340B qualifying entities. These partnerships are increasingly used by states to provide reduced-price Section 340B drugs to mental health facilities, nursing homes, and prison populations. The Florida Department of Health (DOH) is able to purchase drugs through the Section 340B Drug Pricing Program because the DOH is the recipient of federally awarded programs. Accordingly, Florida may be able to expand some of its pharmaceutical purchasing through similar affiliations.

The DOH currently partners with the DOC to provide reduced-price drugs purchased through the Section 340B Drug Pricing Program for patients with HIV/AIDS and sexually transmitted diseases. Physicians employed by the DOH treat inmates in the program, and because of this direct relationship, the State is able to purchase drugs for the inmates through Section 340B. According to

the DOH, the DOC saves about 34 percent of the cost of pharmaceutical drugs by procuring drugs at Section 340B prices.² A recent evaluation of the program, operational in 18 correctional institutions, determined that the State saves approximately \$6 million annually through access to Section 340B prices.³ Similarly, the Texas prison system partnered with an eligible entity several years ago to provide the State corrections population with health care services and access to Section 340B prices, which produced savings of more than \$10 million annually for the State.⁴

Florida should also expand this type of interagency partnership to purchase drugs through the Section 340B Drug Pricing Program for other State entities (such as the DCF and the Department of Juvenile Justice [DJJJ]) that provide outpatient pharmaceuticals directly to patients in the State's care.

An analysis by the DOH's Bureau of Statewide Pharmaceutical Services found that the State would have saved \$7.4 million over three years had it purchased the top 50 most prescribed medications at Section 340B drug prices.⁵

Recommendation: Expand the use of the Section 340B Drug Pricing Program to acquire reduced-price pharmaceutical drugs through the establishment of partnerships with Section 340B eligible entities.

² Florida Department of Health Evaluation and Justification Review. "Report on Findings & Recommendations." March 1, 2011.

³ Lamadrid, Ernesto J. "HIV Prevention Behind Bars." Alachua County Health Department. April 18, 2012. Available at http://www.faetc.org/kwp/HIVPreventionBehindBars_ErnestoLamadrid.pptx

⁴ Combs, Susan. "Window on State Government." Texas Comptroller of Public Accounts, retrieved from www.window.state.tx.us/comptrol/fnotes/fn0609/340.html

⁵ VanLandingham, Gary R. "Research Memorandum: Feasibility of Consolidating Statewide Pharmaceutical Services." The Florida Legislature's Office of Program Policy Analysis & Government Accountability. March 3, 2009.

¹ Lize, Steve, Moncrief, Matthew, and West, Shaun. "Steps to Control Prison Inmate Health Care Costs Have Begun to Show Savings. Report No. O9-07." The Florida Legislature's Office of Program Policy Analysis & Government Accountability. January 2009.

20

Expand the use of electronic payments for disbursements and receipts

Disbursing and receiving payments via paper checks is far more expensive than using electronic payment disbursements and receipts. Although many payments are already being made electronically, the use of electronic payments could be increased.

The increasing prominence of debit cards provides an alternative form of electronic payment that can serve nearly all Floridians and allow the State to shift almost entirely away from paper checks. Electronic payment cards (EPC) are essentially prepaid, rechargeable debit cards that the recipient can use at most retailers or ATMs. Once the recipient has an EPC, direct deposits can be made to the EPC account at a negligible cost to the State.

Assuming a \$2 per check savings using electronic payment disbursements (a conservative estimate), the projected future annual savings for Florida are shown in the table by major program area. **By eliminating printing and mailing paper checks, and instead using electronic payments and debit cards, the State could save up to \$5.8 million in FY2013-14.**

Estimated Savings by Increasing Electronic Payments

Program	Payments by Paper Check	Annual Savings
Public Assistance	157,792	\$315,584
Unemployment Compensation	912,143	\$1,824,286
Expenses	1,361,746	\$2,723,492
Retirement	486,857	\$973,714
Total ¹	2,918,538	\$5,837,076

Source: Information provided by the Department of Financial Services. 2012.

¹ Payroll compensation is not included because it has been determined that State employees almost universally receive direct deposit payments through communication with the Bureau of State Payrolls. 2012.

Additionally, opportunities for savings to the State exist through further increasing the use of electronic receipts. Processing a check received via mail costs State agencies more than \$4; whereas an electronic payment costs less than \$1.² Electronic payments also generate more interest from deposits than payments received via paper check because electronic payments are deposited by the State within one business day.

Analysis of payment receipts provided by the DFS shows that State agencies other than the DOR received 1.46 million payments in FY2008-09. Assuming that 40 percent of these payment receipts were submitted via paper, there are approximately 584,000 paper payment transactions received each year by agencies other than the DOR.³

If half of these paper payments were converted to electronic payments, Florida **would save nearly \$1 million annually**, assuming a \$3 reduction in processing cost per transaction.⁴ If 90 percent of paper payments were electronically processed, the State **would save \$1.5 million annually**.

In 2010, the Florida Legislature passed legislation which required clerks of court to use electronic payment disbursement and receipts for all payments to the DOR.⁵

Increasing the use of electronic payments for disbursements and receipts would save the State up to \$7.3 million annually.

Recommendation: Mandate electronic payments and receipts for all State transactions, except in extraordinary circumstances.

² Estimate based on: Florida Department of Financial Services. Office of the Inspector General. "Payment Receipts Safeguards Can Be Improved While Achieving Significant Cost Savings. (Audit Number 09004)." March 13, 2009.

³ *Ibid.*

⁴ \$876,000 based on FY 2008-09 data.

⁵ Florida Statute 213.13

21

Improve fleet management

The Bureau of Fleet Management (BFM) within the Florida DMS oversees and sets the basic standards for the acquisition, data collection, maintenance, disposal, and replacement of State vehicles.

Although BFM oversees the State's vehicle fleet, it serves primarily in an advisory role, regarding day-to-day fleet operations, delegating to each State agency the responsibility for the operational management of their respective fleet, and referring to BFM when needed. This decentralized system allows for wasteful spending that could be saved with the coordination of resources.

Centralizing certain functions of the State's vehicle fleet operations management (e.g., pool vehicles, maintenance management services, etc.) would produce taxpayers savings by increasing operational efficiencies, permitting vehicles to be shared between agencies (therefore reducing duplications), and maximizing accountability through increased oversight and transparency.

Florida is already in the process of contracting with a fleet consulting firm that will analyze the current organization of the State's fleet and make recommendations for improvement. The firm will produce a business case that includes options for moving to a centralized fleet management service, recommend the specific fleet management tools and polices needed to support each agency's travel needs, identify performance measures needed to ensure accountability, and recommend an ideal size for the State's fleet.¹

In FY2010-11, the State spent approximately \$38.7 million on fuel and approximately \$30.9 million on maintenance.² **Reducing fuel consumption and maintenance costs under a more centralized system by just 10 percent would save the State nearly \$7 million annually.**³

Recommendation: Improve fleet management through better organization and oversight. The Government Cost Savings Task Force supports DMS's effort to better manage the State's vehicle fleet.

¹ Source: Florida Department of Management Services. "Invitation to Negotiate Contract for Fleet Management Consulting Services. ITN No: DMS-12/13-008. Attachment B: Scope of Services." October 11, 2012.

² Information provided by the Florida Division of Fleet Management. 2012.

³ Formula is: FY2010-11 total maintenance costs (\$30,880,780)*10 percent (0.10) + FY2010-11 total FLEET fuel costs (\$38,729,207)*10 percent (0.10) = \$6,960,999.

22 Adjust maximum leave accrual for Select Exempt Service (SES) and Senior Management Service (SMS) employees to be equal to Career Service (CS) employees

State employees designated as Select Exempt Service (SES) and Senior Management Service (SMS) are permitted to accrue a total of 480 hours of unused annual leave for which they receive a reimbursement upon voluntary or involuntary separation.

Departing employees are paid 100 percent of their hourly wage at the time of termination for every hour of annual leave accumulated. The payout scheme for Career Service (CS) employees is the same; however, the maximum amount of accruable hours is capped at 240.

SES and SMS employees receive 176 hours of annual leave at the start of each fiscal year. In addition to the maximum accruable 480 hours, SES and SMS employees also receive a remittance for any unused hours during the year of separation, bringing the maximum possible hours of payable annual leave to 480.

This amount is the same for CS employees; however, they do not receive 176 hours of annual leave at the beginning of each fiscal year but rather accrue annual leave at 8.667 to 13 hours per month, depending on their years of service.

Last year, Florida paid out \$51.7 million in sick and annual leave accrual to State workers.¹ The current liability for the State totals \$677 million in deferred vacation and sick pay.² **If SES and SMS employees were limited to 240 accrued leave hours similar to CS employees, the State would save approximately \$5.4 million annually in leave payouts for retiring employees.**³

Recommendation: Cap the maximum amount of accrued annual leave hours permitted for CS, SES, and SMS employees at 240.

¹ Davis, Brittany Alana. "Unused sick days make a nice parting gift for state workers." Tampa Bay Times. July 13, 2012. Available at www.tampabay.com/news/politics/stateroundup/article1239992.ece

² "Florida lawmakers look to cut workers' unused vacation." The Associated Press. August 19, 2012. Available at www2.tbo.com/news/business/2012/aug/19/florida-lawmakers-look-to-cut-workers-unused-vacat-ar-468488/

³ Data based on: Florida Department of Management Services. "State Personnel System Annual Workforce Report for FY2010-11." Formula is: the Number of SES and SMS Retirees in 2011 X Average Hourly Wage (calculated by average salary for employee class divided by 2,000) X Hours Not Accrued (240): SES: 743 X \$26.5 X 240 = \$4,725,480; SMS: 50 X \$54.5 X 240 = \$654,000.

23 Provide employee pension benefits to all new employees through a Defined Contribution (DC) plan

Nearly all private sector companies offer only Defined Contribution (DC) plans to employees, whereas most FRS employees participate in a Defined Benefit (DB) plan.¹ Administrative expenses for the DB plan are more than 20 times higher per-participant than the DC plan.²

Switching to a DC plan would better align the State's pension system with the private sector, reduce the State's financial liability associated with the DB plan, and generate significant savings in the long run.³

Rather than closing the DB plan entirely (known as a hard freeze), where the DB plan would be fully closed and all employees would be switched to a DC plan for pension benefits accrued after the hard freeze, the State should only close the DB plan to new participants, known as a soft freeze.⁴ Under a soft freeze, all existing employees will continue to accrue pension benefits under their original plan while all new employees hired after the soft freeze will be provided benefits through a DC plan.

Michigan shifted to a DC plan for State public employees (not including teachers) in 1997 through a soft freeze of the DB plan.⁵ According to a recent analysis by a Michigan-based public policy research institute, Michigan has seen significant savings,

1 Florida Department of Management Services. Division of Retirement. "Florida Retirement System 2010-11 Annual Report."

2 According to the FRS 2010-11 Annual Report (*Ibid.*), DB administrative expenses were \$16,098,048 for 540,701 participants (\$29.77 per-participant); DC administrative expenses were \$152,548 for 103,045 participants (\$1.48 per-participant).

3 For more information, see Florida TaxWatch. "Report and Recommendations of the Florida TaxWatch Government Cost Savings Task Force for Fiscal Year 2012-13." (pgs. 163-164).

4 Milliman. "Study Reflecting the Impact of Closing the Florida Retirement System Pension Plan including Projected Blended Rates for the next 30 Fiscal Years." July 8, 2010.

5 Snell, Ron. "State Retirement System Defined Contribution Plans." National Conference of State Legislatures. September 2009.

estimated at \$167 million in normal costs and decreased liabilities of approximately \$2.3 billion to \$4.3 billion.⁶ Furthermore, the analysis points out that: "An additional and important advantage, though difficult to quantify, is the reduced political temptation to provide benefits whose costs are largely deferred to future generations. In other words, a defined-contribution plan is less prone to potentially harmful political interventions."⁷ Alaska also moved to a DC plan through a soft freeze in 2006.⁸

Replacing the high cost DB plan with a DC plan is necessary to optimize the efficient use of taxpayer dollars. Both OPPAGA and a private firm on contract with the State have analyzed the conversion of the pension system to a DC plan and have shown that there are overall benefits – including long-term cost savings – associated with the switch; however, no specific estimates of costs or cost savings have been generated.⁹ Furthermore, there are upfront costs associated with a soft freeze of the DB plan, but increasing the vesting period for the DC plan from one year to six years with a graduated vesting schedule in conjunction with closing the DB plan would immediately reduce the taxpayers' total FRS costs and help offset the upfront costs.

Recommendation: Provide employee pension benefits for all new State employees starting on or after July 1, 2013 through a DC plan. Additionally, increase the vesting period of the DC plan from one year to six years under a graduated vesting schedule.

6 Dreyfuss, Richard C. "Estimated Savings From Michigan's 1997 State Employees Pension Program Reform." Mackinac Center for Public Policy. June 23, 2011.

7 *Ibid.*, page 8.

8 Snell, Ron. "State Retirement System Defined Contribution Plans." National Conference of State Legislatures. September 2009. Note: Alaska switched in 2006 for new employees only; Washington, DC switched in 1987.

9 Milliman. "Study Reflecting the Impact of Closing the Florida Retirement System Pension Plan including Projected Blended Rates for the next 30 Fiscal Years." July 8, 2010. See also: Vaughn, Linda and Madden, Ed. "FRS Defined Contribution Plan Costs Are Typically More Predictable; the Fiscal Impact of Requiring New Employees to Enroll in the Plan Is Influenced by Many Factors. Report No. 10-29." The Florida Legislature's Office of Program Policy Analysis & Government Accountability. March 2010.

24

Establish an agency for State information technology (IT) and business processes

The State's information technology (IT) and business process governance is decentralized, including the management of everything from help desks, email, and data centers to software installation, hardware replacements and repairs. Although the amount of taxpayer dollars spent on public technology is largely unknown (because the system is so disjointed), expenditures are estimated to exceed \$2 billion annually.¹

The State attempted to move to a centralized approach through the creation of two IT agencies, the State Technology Office and the Agency for Enterprise Information Technology (AEIT), in the last eleven years, but both were ultimately unsuccessful.²

A centralized State agency responsible for IT and business processes with policy and implementation authority would produce taxpayer cost savings while improving services to citizens by standardizing processes across all agencies (therefore removing duplications), increasing accountability, and allowing for better purchasing through economies of scale.

¹ The Florida Senate. "CS/SB 1494. Information Technology Management." March 22, 2005.

² The State Technology Office was established in 2001 to act as an enterprise-wide oversight for technology management; however agencies were slow to accept a central authority. The agency lost funding in 2005 when then Governor Jeb Bush vetoed a bill passed by the Legislature that would have eliminated the agency and instead placed its responsibilities under the DMS. Source: Hansen, Wayne. "Update: Florida State Technology Office Loses Funding." Government Technology. June 30, 2005. In 2007 the Legislature yet again created an agency within the Executive Office of the Governor with the purpose of creating and implementing a design for a model of enterprise-wide IT services. The AEIT was ineffective because it was given the responsibility to plan and establish procedures for the management of enterprise-wide IT services, but not the legislative authority to enforce the policies it created across State agencies. AEIT has been decommissioned because it received no budget appropriation for FY2012-13. Source: Williams, Matt. "Florida's Technology Agency Caught in Political Crossfire." Government Technology. June 14, 2012.

The agency should be responsible for utility services that may be commoditized across all agencies, and not for IT items that are system-related to particular agencies.

The State is still without an entity that is in charge of IT strategy and business process implementation on an enterprise-wide basis, leaving a fragmented system in place that causes the inefficient use of millions of taxpayer dollars annually. Furthermore, several reviews of IT governance in other states indicate Florida is one of the few major states without a State Chief Information Officer (or similar position).³

Recommendation: Establish a centralized State agency responsible for IT and business processes.

³ Center for Technology in State Government. "Enterprise IT Governance in State Government. State Profiles." 2009. Note: This policy brief includes a comparative overview of the IT governance of 13 states. Each state's IT governance includes a position for a State IT Official. Florida is now without such a position due to the decommissioning of AEIT. See also: Committee on Governmental Operations. "Enterprise Information Technology Senate Review and Study. Report No. 2007-140. Prepared for the Florida Senate." January 2007. Note: In 2007, the Committee on Governmental Operations reviewed literature on IT governance in other states. The study indicated that the majority of states have some form of IT governing board and/or a State Chief Information Officer.

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Replace the Florida Accounting Information Resource (FLAIR) with a modern accounting system

Every business needs an accounting system to ensure accurate financial management and reporting. Florida uses an accounting system that was first created in the 1970s, FLAIR, to manage its more than \$70 billion annual budget.

FLAIR is more than 30 years old and has not been updated accordingly as technology has advanced. As a result, FLAIR is so outmoded that it is no longer sufficient to satisfy the accounting needs of State agencies.¹ The system operates on a programming language called Natural that is a “dead language,” leading to difficulties by the DFS to train and retain qualified staff. The DFS is experiencing a loss of institutional knowledge as key staff members who understand the Natural language are reaching retirement age. FLAIR’s lack of intuitiveness also makes modifications required by the Legislature (such as pension changes) time consuming and problematic.

The State attempted to create a modernized, streamlined accounting system through an initiative called Project Aspire.² However, the project was suspended and ultimately never completed.³ Simply patching or modifying FLAIR has been tried over and over again and is not adequate. Adding even just a new data element to FLAIR would cost millions of taxpayer dollars because such a modification would require substantial changes to thousands of design specifications. A complete overhaul of the State’s accounting system is needed.

To ensure success, a project for a new accounting system needs a clear strategy with executive level oversight. There is currently a plan envisioning a phased-in approach to replacement of the system beginning with a report recommending a new “uniform charts of account,” as required by Florida Statue 215.89, by January 15, 2014. Although a new financial management system would require significant upfront investment costs, it is essential to modernizing Florida’s accounting practices.

Recommendation: Replace the FLAIR with a modern accounting system that will provide fiscal transparency and accountability to the taxpayers.

² Project Aspire was prompted by a study mandated by the Legislature in 1999 that found FLAIR was becoming outdated. The project received a budget of \$100 million in early 2004.

³ Project Aspire was intended to be completed by February 2006. In 2007, the State hired an information technology consultant to conduct an independent assessment of the project. The resulting report found there were critical flaws in the State’s management of the project, conflicting expectations from different State agencies, and uncertainty in the State’s ability to continue to fund the financial management system, as it was determined Project Aspire would cost substantially more to complete than originally estimated. Although the State had already spent \$89 million, estimates placed Project Aspire’s total price at more than \$200 million upon conclusion of the initiative. The Chief Financial Officer of Florida determined it was in the taxpayers’ best interest to suspend the project because even after such a substantial investment, it lacked clear strategies and senior governance. Source: Bousquet, Steve. “\$89M down the State drain.” Tampa Bay Times. May 18, 2007. Available at www.sptimes.com/2007/05/18/State/89M_down_the_State_dr.shtml

¹ Council on Efficient Government. “Report to the Governor on MyFloridaMarketPlace, People First, and Project Aspire. Report No. R08-002.” January 17, 2008.

RECOMMENDATIONS BY CATEGORY

Rec. #	Name of Recommendation	Cost Savings Estimate	Page
	General Government		
2	Reduce operational expenditures through the use of benchmarking for appropriations and the State's shared-savings program	\$230 million*	9
3	Eliminate the Deferred Retirement Option Program (DROP)	\$71.4 million*-	10
4	Implement a fraud deterrent system for child care providers	\$60 million*	11
9	Improve the process for identification and disposal of underutilized and surplus land and assets	\$39 million	18
10	Increase the use of electronic time and attendance systems	\$28.9 million*	19
13	Improve accountability for State grants	\$20 million*	22
14	Limit Special Risk class membership to frontline employees	\$20 million*	23
20	Expand the use of electronic payments for disbursements and receipts	\$7.3 million*	31
21	Improve fleet management	\$7 million*	32
22	Adjust maximum leave accrual for Select Exempt Service (SES) and Senior Management Service (SMS) employees to be equal to Career Service (CS) employees	\$5.4 million*	33
23	Provide employee pension benefits to all new employees through a Defined Contribution (DC) plan	SYI	34
24	Establish an agency for State information technology (IT) and business processes	SYI	35
25	Replace the Florida Accounting Information Resource (FLAIR) with a modern accounting system	SYI	36
	Health Care Reform		
1	Implement a defined employer contribution health insurance model	\$380.3 million*	7
11	Audit the Retiree Drug Subsidy (RDS) Program and convert to an Employer Group Waiver Program (EGWP)	\$25 million*	20
16	Provide financial incentives based on controllable wellness indicators to reduce State health insurance costs	\$18 million*	27
19	Expand Florida's use of the Section 340B Drug Pricing Program	\$7.4 million*	30
	Criminal Justice Reform		
5	Expand electronic monitoring as a tool to divert non-violent offenders from prison	\$58.8 million*	12
8	Expand electronic monitoring as an alternative to traditional incarceration for offenders serving prison sentences	\$43.8 million*	17
12	Expand prison work release programs for low-risk inmates	\$20.9 million*	21
18	Expand evidence-based literacy, education, and vocational training programs	\$8 million*	29
	Education Reform		
7	Improve eligibility requirements for Bright Futures Scholarship (BFS) program recipients	Up to \$55.4 million*	15
	Revenue Enhancement		
6	Improve collection of sales tax on remote sales - E-Fairness and Streamlined Sales Tax	\$58.5 million*	13
15	Allow placement of advertising and sponsorship on State publications, properties, and vehicles	\$18.6 million*	25
17	Increasing audit coverage and tax compliance	\$12 million*	28

Key: * = savings are recurring
 ~ = savings would also occur at the local level
 SYI = significant yet indeterminate savings

COST SAVINGS TASK FORCE STAFF

On behalf of the Government Cost Savings Task Force for FY2013-14 Chairman John R. Alexander, Florida TaxWatch President and CEO Dominic M. Calabro, and the Florida TaxWatch Board of Trustees, many thanks to the following Florida TaxWatch staff that devoted their professional skills and experience to the success of the Government Cost Savings Task Force for FY2013-14:

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As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the citizens of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

Florida TaxWatch is supported by voluntary, tax-deductible memberships and private grants, and does not accept government funding. Memberships provide a solid, lasting foundation that has enabled Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves for the last 33 years.

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