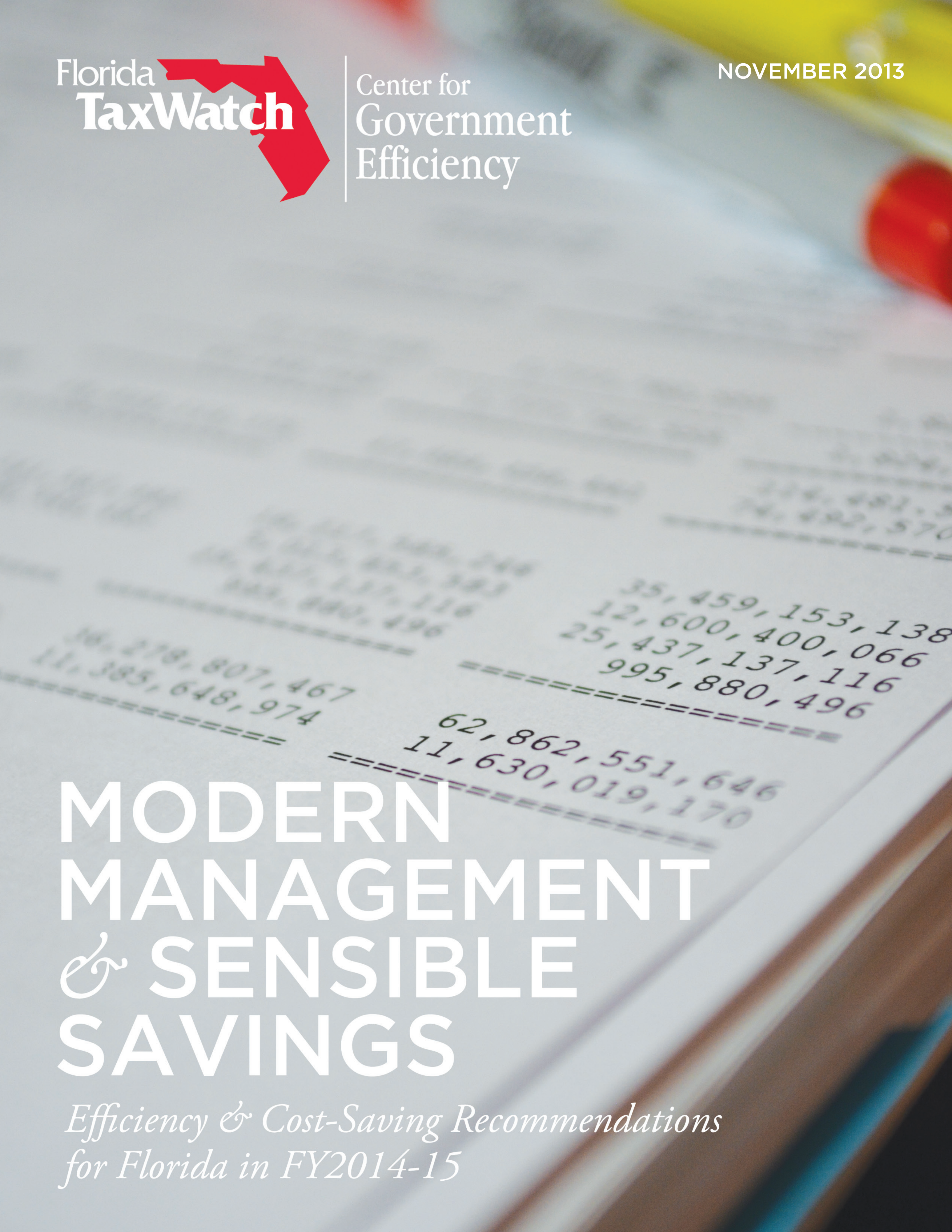

Florida TaxWatch

Center for Government Efficiency

NOVEMBER 2013

MODERN MANAGEMENT & SENSIBLE SAVINGS

Efficiency & Cost-Saving Recommendations for Florida in FY2014-15

FROM THE CHAIRMAN

Dear Fellow Taxpayers,

For the past six years, Florida TaxWatch has convened its annual Government Cost Savings Task Force, a collection of some of Florida's best and brightest in business leadership, state and local government leadership, and policy development. Supported by the outstanding Florida TaxWatch research team, this group speaks with a strong, well-informed, and highly-respected voice.

Because of the credibility of the Task Force, the Florida Legislature has implemented a substantial number of its recommendations, resulting in more than $4.2 billion in cost-savings and efficiencies for Florida taxpayers. Building on these successes, this *Report* focuses on a select group of recommendations that can make a significant difference for taxpayers and result in a more efficient government, but have traditionally been difficult for elected officials to shepherd through the process.

This *Report* recommends replacing the state's antiquated accounting system, implementing enterprise-wide best practices, enrolling new FRS members in the defined contribution investment plan, making smarter choices with our corrections system, making needed changes to the state employees' health insurance system, and maximizing existing sources of revenue to fund critical needs.

Most of these solutions have multiple parts, and some may be very contentious in the political arena. Far from a deterrent, strong political challenges illustrate just how serious these issues truly are, and the importance of their outcomes to Florida taxpayers.

Additionally, heading into the 2014 Regular Session, some of Florida's top elected officials have prioritized a $500 million tax cut for the 2014-15 fiscal year, and the recommendations included in this *Report* can help to offset the effect of the reductions in revenue from the proposed tax cuts.

Florida TaxWatch believes that the recommendations herein are responsible, proactive, and the right solutions for all Floridians. It is the hope of Florida TaxWatch and the TaxWatch Center for Government Efficiency Advisory Board that Florida's elected leaders take these recommendations into consideration as they determine how to allocate taxpayer dollars in the coming Session and beyond.

Sincerely,

John R. Alexander	John B. Zumwalt, III	Dominic M. Calabro
Advisory Board Chairman	*Chairman*	*President & CEO*
Alico, Inc. (Ret.)	*Florida TaxWatch*	*Florida TaxWatch*

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EXECUTIVE SUMMARY

The Florida TaxWatch Center for Government Efficiency (CGE) is continuing the legacy of the Government Cost Savings Task Force by providing Florida's government leaders with recommendations that can reduce costs and improve services for Florida's taxpayers.

This *Report* offers six comprehensive recommendations that have the potential to improve every facet of Florida's government. The specific recommendations address the following issues:

- FLAIR Replacement
- IT Governance, Procurement, and Asset Management
- Pension Reform
- Criminal Justice Reforms
- Health Insurance Reforms
- Revenue Maximization

These recommendations are designed to identify efficiency improvements, provide a brief description and issue analysis, and recommend a solution on which Florida's governmental officials can take action. Additionally, each recommendation includes a cost-saving estimate that projects the potential financial and economic benefits of implementation of these solutions.

These recommendations have been thoroughly researched, discussed, and vetted by the CGE Advisory Board members and staff. The recommendations are intended to be brief issue analyses that offer solutions, so not all of the research compiled for each recommendation is provided in this *Report*; however, additional information is available upon request from Florida TaxWatch.

The recommendations included in this year's *Report* are designed to help public officials and their staff identify opportunities to increase efficiency and accountability in government, while continuing to provide the highest level of service to Florida taxpayers.

1 FLORIDA SHOULD REPLACE THE FLAIR WITH A MODERN ACCOUNTING SYSTEM

RECOMMENDATION

The Legislature should replace the FLAIR with a modern accounting and financial reporting system that will provide accountability and fiscal transparency, and should appropriate the necessary funds for the multi-year project.

Every business needs an accounting system to ensure accurate financial management and reporting. The taxpayers of Florida rightfully expect nothing less from their government. Florida's accounting system, the Florida Accounting Information Resource (FLAIR), manages more than 95 million transactions annually (including payroll distributions to more than 180,000 state employees) for the state's $74+ billion annual budget.[1]

If a new accounting and financial reporting system could help identify savings totaling only one-half of one percent (0.5 percent), the savings generated on a $70 billion annual budget would exceed $350 million.

FLAIR is more than 30 years old and has not been updated as technology has advanced.[2] As a result, FLAIR is so outdated that it is no longer sufficient to meet the accounting needs of state agencies.[3]

While designing and implementing a new accounting and financial reporting system for the state is an enormous undertaking that will take significant time and investment—likely tens to hundreds of millions of dollars over three to five years—such an investment would bring back significant long-term returns.

The reasons FLAIR needs to be replaced include:

- FLAIR operates on an antiquated programming language, causing maintenance costs to be high;
- FLAIR cannot provide detailed information quickly and efficiently because of limited capabilities;

1 Florida Department of Financial Services. "FLAIR Study." Request for Quotes. DFS AC RFQ #32.

2 More than 10 years ago, Florida attempted to modernize and streamline the state's accounting system through Project Aspire, which was to be completed by February 2006; however, in 2007, the project was cancelled. An analysis conducted for the state determined that 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.

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

EST. SAVINGS
$350m

- FLAIR cannot provide the type of data that modern accounting systems provide as the basis for analyses to determine inefficiencies and generate cost savings;[4]
- FLAIR's antiquated technology is a major impediment to the implementation of new IT systems because it is difficult to make new systems compatible with the existing system;
- Key state employees that understand the antiquated FLAIR system's language are reaching retirement age; and
- Given the condition of FLAIR, the system may leave the state unable to make payments in the near future.

The Florida TaxWatch Government Cost Savings Task Force has consistently recommended that FLAIR be completely replaced, not simply patched as it has been in the past.

Building upon these recommendations, the TaxWatch Center for Government Efficiency continues to support the replacement of FLAIR with a comprehensive overhaul of the state's accounting and financial reporting system, such as the implementation of an Enterprise Resource Planning (ERP) system.

The 2013 Legislature appropriated $1.75 million to complete a study on the advantages and disadvantages of enhancing or replacing FLAIR, as well as assessing the feasibility of implementing an ERP system. According to the appropriation language:

> *"The study should include an inventory of all systems interfacing with FLAIR and assess the advantages and disadvantages of replacing: (1) FLAIR; (2) FLAIR and the Cash Management Subsystem (CMS); and (3) FLAIR, CMS, and the procurement and personnel subsystems. The purpose of the study is to identify and recommend replacement or enhancement options for consideration and shall include all specific changes needed in the Florida Statutes and financial business practices."*

Furthermore, the Legislature has taken some preliminary steps to replace FLAIR, including statutorily requiring (Florida Statue 215.89) new "uniform charts of account," by January 15, 2014. A new chart of accounts is the foundation of a new accounting system.

Until the study is completed in February 2014, a definitive recommendation on the replacement strategy is premature; however, the Legislature should financially support the overhaul of the state's accounting and financial reporting system by appropriating funds to begin the project in 2014. Additionally, the Legislature should consider a significant upfront appropriation or options for a multi-year or recurring funding plan to ensure the long-term commitment to this project.

RECOMMENDATION: The Legislature should replace FLAIR with a modern accounting and financial reporting system that will provide accountability and fiscal transparency, and should appropriate the necessary funds for the multi-year project.

SAVINGS: Considering that FLAIR manages a more than $70 billion annual budget, a one-half of one percent (0.5 percent) efficiency improvement in accounting transactions and financial analysis would generate $350 million in recurring savings. This does not take into account the cost of an up-front investment, or the time to realize savings, but the savings from financial analyses have the potential to be much greater than one-half of one percent.

4 Accounting data is "internal" and "structured," (as opposed to "external" and "unstructured") meaning it is the easiest to analyze and leverage for efficiency.

2 FLORIDA SHOULD DETERMINE & IMPLEMENT ENTERPRISE-WIDE BEST PRACTICES

RECOMMENDATION

Florida should create an agency with the responsibility and authority to set and manage information technology (IT) policy, improve procurement practices to leverage aggregated spending across agencies, and optimize the management of state assets.

The state conducts operations and provides services through numerous agencies and governmental entities. Often these operations require collaborative efforts that involve multiple agencies, private and public interactions, and strategic coordination. Addressing these operations as an enterprise-wide initiative can improve services and reduce costs.

Along with the replacement of FLAIR, enterprise-level strategies for targeted governmental operations should be developed that determine and implement best practices and provide a collaborative environment for the delivery of services.

Three specific operations that should be targeted for enterprise-level strategic governance include:

- Creating an agency with the responsibility and authority to set and manage information technology (IT) policy;
- Improving procurement practices to leverage aggregated spending across agencies; and
- Optimizing the management of state assets.

Developing the appropriate governance structures to determine and implement best practices are critical components to create value in Florida's government. The Legislature should clearly define responsibilities for existing agencies (or create new agencies) and provide them with the resources and authority to manage targeted enterprise-level operations.

A. IMPLEMENTING AN EFFECTIVE IT GOVERNANCE MODEL

Technology plays an increasingly important role in today's society, as it enables the primary functions of any business or governance structure. Florida's current IT-related business processes are decentralized and lack sufficient oversight, leading to considerable inefficiencies in practices and expenditures.

EST. SAVINGS
$70m

Although the amount of taxpayer dollars spent on technology for state agencies in Florida is largely unknown (because the system is so disjointed), expenditures are estimated to exceed $2 billion annually.[5]

Florida's lack of an agency responsible for IT strategies, policies, and procedures has caused Florida to spend nearly the most (third-highest) in the nation and receive the worst quality of IT services.[6] The current IT structure also makes Florida vulnerable to technology threats and incapable of leveraging available data to determine best practices.

In a recent survey by the Center for Digital Government, Florida shared the lowest grade in the nation ("D") with one other state (Idaho) on a grading metric of "best practices, policies and progress made by state governments in their use of digital technologies to better serve their citizens and streamline operations."[7]

Several reviews of IT governance in other states indicate Florida is one of the few large states without a state Chief Information Officer (or similar position). Currently, individual agency CIOs are making high-level decisions that, if addressed at the enterprise level, could be leveraged across agencies to improve services at a reduced cost.

Florida needs an agency (potentially reporting to the Cabinet) with the responsibility and authority to set and manage enterprise-wide IT strategies, policies, and procedures. The purpose of the agency should be increasing consistency between agencies and producing efficiencies through economies of scale.

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

6 *Ibid*

7 House Appropriations Committee presentation, March 28, 2013.

An implementation strategy that addresses the desired outcomes and potential challenges needs to be developed to ensure a successful transition. The agency should adopt a multi-year, phased-in approach that keeps CIOs empowered to determine the needs of individual agencies, but accountable to the single agency responsible for enterprise-wide policies.

RECOMMENDATION: The Legislature should establish a state agency with operational and budgetary responsibility and authority for enterprise-wide IT-related strategies and processes.

SAVINGS: Considering Florida spends approximately $2 billion annually on IT services, a 1 percent efficiency improvement in cost and delivery would result in $20 million in cost savings.

B. DEVELOPING AN ENTERPRISE-WIDE GOVERNANCE MODEL FOR PROCUREMENT

Florida procures nearly $5 billion in goods and services annually,[8] which includes everything from pencils and vehicles to landscaping and legal services. These procurements enable the state to perform every function needed; however, there is relatively little oversight and procedural standardization considering the volume of expenditures.

While the Florida Department of Management Services (DMS) has a considerable amount of responsibility for state procurement, each agency has a procurement officer that is responsible for determining the needs of their agency and how to procure such goods and services.

DMS lacks the necessary authority to manage enterprise-level procurement spending and encourage agency inter-operability to maximize the value of state spending. Procurement

8 See TaxWatch Report: Report and Recommendations of the Florida TaxWatch Government Cost Savings Task Force for Fiscal Year 2012-13. Pages 55-61.

management in Florida needs to be focused on determining best practices and enforcing enterprise-wide policies that leverage aggregated state spending.

Purchasing agreements (such as the 340B drug pricing program)[9] are examples of efficient enterprise-level procurement practices that employ collaborative efforts to maximize the state's purchasing power.

Procurement is an enterprise-wide process that affects every facet of government. Improving the culture of procurement within Florida's governmental entities would generate a collaborative environment that enables good spending practices, saving considerable amounts of taxpayer dollars.

RECOMMENDATION: The Legislature should provide DMS with the resources and authority to determine and enforce best practices for state procurement, and establish a collaborative environment around state procurements with agency inter-operability.

SAVINGS: Considering Florida procures nearly $5 billion annually in goods and services, a 1 percent efficiency improvement in contract management and costs would result in $50 million in cost savings.

C. OPTIMIZING THE MANAGEMENT OF STATE ASSETS

The state of Florida owns billions of dollars worth of assets, the management of which is a costly annual responsibility. Even minor efficiency improvements could save hundreds of millions of taxpayer dollars annually.

9 *Ibid*. The 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 49 percent lower than average wholesale prices and 24 percent lower than that available to group purchasing organizations.

These assets make up the state's portfolio, and optimizing portfolio management is a standard business practice. If the state invested in portfolio optimization and asset management, the resulting benefits have the potential to streamline government operations, improve services, and reduce taxpayer costs.

Note: The examples that follow are representations of the potential benefits from specific enterprise-level asset management opportunities. An analysis of a broader scope of government practices would reveal more opportunities for such operational efficiency sources.

Shared Facility Management

The DMS is responsible for the overall management of state-owned facilities, yet of the 16,000 properties within the Florida Facilities Pool, only 108 are actually managed by DMS.[10] This decentralized model of facility management (with cascading levels of decentralization toward the local level) allows for inefficiencies such as duplicative management contracts and services. This could be addressed collectively for significant cost savings through economies of scale.

The Florida Department of Environmental Protection and DMS recently collaborated to generate the FL-SOLARIS database, a centralized database for the collection of records for all state-owned real estate. This is the first step in changing the current decentralization of facility management, and a platform for implementing an enterprise-wide shared facility management model. The DMS should be assigned the responsibility and authority to organize real estate management throughout the state with a focus on portfolio optimization.

10 Data based on correspondence with the DMS.

Repurposing Prison Facilities

There are currently 17 prison facilities in Florida that have been closed. Some of these vacant facilities were once economic drivers in their communities, but are now an underutilized asset to the state of Florida, and should be repurposed.

Plans are already being developed and implemented for certain facilities. The Gainesville Correctional Institution may soon provide services/shelter for the homeless and youth of the community.[11] Ohio is turning a vacant 350-bed prison into a reentry facility in an attempt to reduce recidivism and provide criminals with the help they need to succeed in the community.[12]

These facilities could also be sold to private companies to be used as hospitals, hotels, or for military training. Vacant prisons represent a great opportunity for Florida to create new residential programs for offenders, and provide additional jobs for Floridians.

RECOMMENDATION: The Legislature should appropriate funds for a study on maximizing the efficient management of state assets, and move toward a shared facility management model of state-owned real estate.

SAVINGS: An investment in portfolio optimization would improve efficiency in the management of state assets. Potential savings from such an investment are significant yet indeterminate.

11 "A tour of Gainesville's Prison-Turned-Homeless Shelter." WUFT News. 6/25/2012

12 "Former state prison to help ex-convicts." Dayton Daily News. 2/16/2012

3 FLORIDA SHOULD ENROLL ALL NEW FRS MEMBERS INTO THE DEFINED CONTRIBUTION INVESTMENT PLAN

RECOMMENDATION

The Legislature should enroll all new FRS members in the Defined Contribution Investment Plan.

Nearly all private sector companies offer only Defined Contribution (DC) investment plans to employees, whereas the majority of Florida Retirement System (FRS) members participate in the Defined Benefit (DB) plan.[13]

Requiring all new FRS members to enroll in the DC plan would benefit the state's pension system by better aligning government benefits with those provided by the private sector, reducing the state's financial liability and generating significant savings in the long run.

Another benefit of requiring all new employees to participate in the DC plan is that employer contributions have less variation from year-to-year. Employer contributions to a DB plan are based on actuarial calculations of the long-term liability of the plan, which partially rely on assumptions of capital return on investments to fund the long-term liability, so they vary from year-to-year and are generally countercyclical. Actuarially-determined employer contribution rates to a DB plan may be lower during periods of economic growth because the fund is generating high capital investment returns, and higher during recessionary periods when the fund is generating lower capital investment returns, which is a time when governments can least afford higher costs.

Michigan shifted to a DC plan for state public employees (not including teachers) in 1997 through a soft freeze of its DB plan.[14] According to a recent analysis by a Michigan-based public policy research institute, Michigan has seen significant savings, estimated at $167 million in normal costs and decreased liabilities of approximately $2.3 billion to $4.3 billion.

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

13 Florida Department of Management Services. Division of Retirement. "Florida Retirement System 2011-12 Annual Report."

14 A soft freeze is when a plan is closed to new entrants while those participants already in the plan continue to accrue benefits.

EST. SAVINGS $10m

interventions."[15] Alaska also moved to a DC plan through a soft freeze in 2006.[16]

During the 2013 Legislative Session, HB 7011 proposed closing the Florida DB plan to new employees and improving the DC plan options, but failed to pass.[17] The Legislature also commissioned a report by the state's actuaries to determine the costs associated with closing the DB plan. An analysis of the actuarial study by the professional staff of the Florida House of Representatives determined an initial cost of $2.7 million in FY 2014-15, then a savings of $12.9 million in FY15-16, out to $9.8 billion in savings in FY2042-43.[18]

There are considerable benefits to providing only a DC plan: reducing liability and risk to the taxpayers, aligning public benefits with those provided in the private sector, and creating significant long-term cost savings.[19]

RECOMMENDATION: The Legislature should enroll all new FRS members in the Defined Contribution Investment Plan.

SAVINGS: Based on the analysis from the Florida House of Representatives, Florida would save over $10 million in the first two years of transition and consistently increasing recurring savings for the thirty-year projected period.

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

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

17 Florida House of Representative. HB 7011. 2013 Session. Retrieved from: http://www.myfloridahouse.gov/Sections/Bills/billsdetail.aspx?BillId=49863

18 Florida House of Representatives. Press Release and Analysis of Actuarial Study. 2013. Retrieved from: http://static-lobbytools.s3.amazonaws.com/press/53871_projected_annual_savings_for_hb_7011_pension_reform_.pdf

19 A contributory match should be considered to incentivize members to voluntarily switch to the DC Investment plan.

4 FLORIDA SHOULD IMPROVE THE CRIMINAL JUSTICE SYSTEM

RECOMMENDATION

Diverting non-violent offenders from prisons, providing evidence-based, behind-the-wall programs, and expanding reentry programs would increase public safety and reduce costs.

The Florida Department of Corrections (DOC) houses 100,884 inmates, and this population is expected to grow by 5.9 percent by 2018.[20] While the DOC strives to reduce recidivism, 27.6% of inmates released from prison are re-incarcerated within three years of release.[21] According to the DOC, every 1 percent reduction in recidivism represents 400 fewer inmates admitted over a three-year period and a savings of approximately $8 million.[22]

Florida has not focused on preparing inmates for their return to society upon their release, and this *Report* makes recommendations that reform several elements of the criminal justice system. The recommendations include:

- Using diversion programs for non-violent offenders;
- Providing education, vocational training, and faith- and character-based programs for inmates; and
- Employing reentry and work release programs that help inmates effectively transition back into society.

Addressing the needs of inmates while they are incarcerated and as they transition back into society can reduce recidivism, improve public safety, and reduce taxpayer costs relating to re-incarceration.

A. EXPANDING DIVERSION PROGRAMS

Diversion programs reduce prison populations by diverting non-violent offenders from prison and sentencing them to offense-specific programs. These front-end programs (which include drug treatment, mental health, specialty courts, electronic monitoring and civil citation programs) promote public safety, reduce recidivism, and accomplish these outcomes at a reduced cost to the taxpayer.

20 Criminal Justice Estimating Conference, July 23, 2013

21 Florida Department of Corrections. "Quick Facts" August 2013.

22 Florida Department of Corrections. "2009 Florida Prison Recidivism Study. Releases from 2001 to 2008." May 2010

EST. SAVINGS
$131m

Non-violent, first-time offenders make-up approximately 6 percent of the prison population, and cost taxpayers an average of $55.54 per day.[23] Diversion programs can offer a cheaper alternative to prison sentences. The FY2008-09 first-year-cost-per-offender in a residential drug treatment program is $10,539 compared to the cost of housing in a prison facility, which is $20,272.[24]

Furthermore, prisons are hostile, stressful environments that can potentially exacerbate criminogenic characteristics of non-violent offenders.[25] Diversion programs offer non-violent offenders specific programs aimed at addressing the reasons the offense occurred.

Electronic monitoring is another tool that could be used and possibly paired with other diversion programs. Based on research from a DOC study, the Office of Program Policy Analysis and Government Accountability (OPPAGA) determined that 75 out of every 100 offenders placed on electronic monitoring will not violate the terms of their supervision.[24]

RECOMMENDATION: The Legislature should strengthen and expand successful evidence-based diversion programs, and continue to seek other diversion programs that reduce recidivism and costs.

SAVINGS: For every 10 percent of the approximately 47,710 non-violent offenders that are diverted from prison, the state can save between $46 million and $72 million annually.[24]

23 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.

24 *Ibid*.

25 Smith, Amy. "Health and Incarceration: A Workshop Summary." 2013. National Research Council and Institute of Medicine. National Academies Press. Retrieved from: http://www.nap.edu/catalog.php?record_id=18372

B. EXPANDING EDUCATIONAL, VOCATIONAL, AND FAITH- AND CHARACTER-BASED PROGRAMS

The preparation necessary for successful reentry of an inmate into society can be achieved through prison-based programming. These programs, which use incarceration time productively, provide the best chance for inmates to become law-abiding citizens, include education and vocational training, substance abuse treatment, faith/character building and transitional release planning.

Educational and vocational training programs have been shown to reduce recidivism. The DOC reports that inmates who earn a GED or vocational certificate are 7.9 and 17 percent less likely to recidivate, respectively, when compared to inmates that did not.[26]

Additionally, OPPAGA has found that inmates from faith- and character-based prison programs have lower recidivism rates and fewer disciplinary problems than comparable inmates. Wakulla Correctional Institution's recidivism rate for faith- and character-based programs is 15 percent lower than that of comparable prisons, and had a waiting list of more than 10,000 inmates at the time of an October 2009 study.[27]

RECOMMENDATION: The Legislature and the DOC should expand the use of evidence-based literacy, education, vocational training, and faith- and character-based prison programs, and incentivize inmates to participate.

SAVINGS: If these programs resulted in even a 1 percentage point decline in recidivism rates, the state would save apporoximately $8 million annually.[see 22]

26 Florida Department of Corrections. "2010-2011 Agency Annual Report"

27 OPPAGA, "Faith- and Character-Based Prison Initiative Yields Institutional Benefits; Effect on Recidivism Modest," Report No. 09-38. October 2009.

C. EXPANDING REENTRY AND WORK RELEASE PROGRAMS

Florida's re-entry programs help inmates become law-abiding citizens by providing services that support the transition from life inside a correctional facility to the general population. These re-entry programs, which include services such as substance abuse treatment, vocational/educational training, and assistance obtaining documentation necessary for employment, have been shown to reduce recidivism. Work release programs allow inmates who are pre-screened to work in the community and live in work release centers outside of prison towards the end of their sentences, which allows for a smoother transition into the community.[28]

There are re-entry programs in Florida that have been shown to reduce recidivism. The Jacksonville Reentry Center has reduced recidivism rates among participants that complete the program to 17 percent compared to 27.6 percent for all of released DOC inmates.[29]

Additionally, housing inmates at work-release centers saves money for the state because it is cheaper than prison. Work-release programs cost $29.29 per inmate, per day, compared to inmates housed in a regular prison facility, which costs $55.54.[30]

RECOMMENDATION: The Legislature and DOC should expand the use of reentry and work release programs.

SAVINGS: The state could save approximately $51 million by placing 10 percent of nonviolent inmates into work release facilities.[31]

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

29 Recidivism rates and cost-saving estimates were calculated using data from the Jacksonville Reentry Center and Florida Department of Corrections Annual Report FY 2011-2012. All data accessed May 2013

30 Lize, Steve and Seeger, Kelley.

31 Savings were calculated by: (non-violent prison population) x (percent of nonviolent population going into work release) x (days spent in work release program) x (per-inmate, per diem program costs). The figures are: (47,710) x (0.1) x (365) x ($29.29) = $51,006,045.40 saving annually. Calculations from DOC 2011-12 Annual Report.

5 FLORIDA SHOULD IMPROVE THE HEALTH INSURANCE SYSTEM FOR STATE EMPLOYEES

RECOMMENDATION

The Legislature should convert the State Group Insurance Program to a defined contribution health model, audit the program to determine eligibility and current coverage of dependents; increase the coverage categories offered; increase emergency room copays; convert the Retiree Drug Subsidy Program to an Employee Group Waiver Program and implement an Employee Group Wellness Program.

EST. SAVINGS $423m

The State Group Insurance Program provides health care coverage to state employees, and the costs are rising rapidly. Total program expenses are expected to grow from an estimated $2.04 billion in FY2013-14 to $2.88 billion in FY2017-18.[32] These estimates do not include the potential impact of the Patient Protection and Affordable Care Act, which could add $141.2 million in expenses in FY2016-17.[33] The Florida Department of Management Services (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."[34]

While the state provides excellent benefits to public employees, there is a need to educate participants on the costs of individual plan and care options, and to make changes to ensure that the state can continue to provide high-quality insurance for the public workforce.

The following recommendations include:

- Allocating funding for a comprehensive audit of the State Group Insurance Program to determine eligibility and current coverage of dependents;
- Increasing coverage categories offered;
- Increasing emergency room copays;
- Implementing an Employee Wellness Program;
- Auditing the Retiree Drug Subsidy Program and converting it to an Employee Group Waiver Program; and
- Converting the State Group Insurance program to a DC Health model.

An educated health consumer makes better, less expensive decisions, so investing in healthy lifestyles, reducing the overdependence on expensive emergency room care, and providing options for spousal and dependent coverage are avenues the state should pursue to improve health services and reduce costs.

32 Self-Insurance Estimating Conference. "State Employees' Group Health Self-Insurance Trust Fund." Post Legislative Session Impact Outlook for the Fiscal Years Ending June 30, 2013 through June 30, 2018. Adopted August 8, 2013.

33 These estimates do not include the potential impact of the Patient Protection and Affordable Care Act, which could add $141.2 million in expenses in FY2016-17.

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

A. ALLOCATE FUNDING FOR A COMPREHENSIVE AUDIT OF THE STATE GROUP HEALTH INSURANCE PROGRAM TO DETERMINE DEPENDENT ELIGIBILITY AND CURRENT COVERAGE

There are currently an unquantified, but estimated to be substantial number of ineligible dependents receiving health coverage under the State Group Insurance Program. The DMS is responsible for administering the health insurance plan for state employees, and is undergoing an internal audit of the plan based on Legislative direction. Funding was not allocated for the audit, but DMS decided that it was prudent to require a dependent certification as part of Open Enrollment and is initiating a random sampling audit to verify dependent eligibility.

Open Enrollment certification will verify those that make changes to their plans and the random sampling audit will identify a certain percentage of ineligible dependents, but there is a need for a comprehensive audit that can verify the eligibility of dependents and purge the State Group Insurance Program of ineligible recipients.

RECOMMENDATION: The Legislature should allocate funding for a comprehensive audit of eligibility status of dependents covered under the State Group Insurance Program.

SAVINGS: Auditing dependent eligibility within the State Group Insurance Program would identify ineligible recipients, the savings of which are estimated to be significant yet indeterminate.

B. INCREASE THE NUMBER OF COVERAGE CATEGORIES WITHIN THE STATE GROUP INSURANCE PROGRAM

Currently, there are only two categories within the State Group Insurance Program: Single and Family.[35] These designations provide limited choices for employees, and a limited ability for the state to capture data that could be used to reduce costs. Having additional categories (for example: Single, Single and Spouse, Single and Dependent(s), and Family) could lead to cost savings for both employees and the state as employer. Employees would be able to select insurance coverage that more accurately reflects needs without having to pay more for unnecessary coverage. For example, a single individual with dependents could avoid paying more for a non-existent spouse reflected in a Family coverage plan. Additional categories would allow the state to offer additional price levels for employees.

RECOMMENDATION: The Legislature should increase the number of coverage categories within the State Group Health Insurance Program beyond two categories to accurately capture coverage needs and to facilitate the creation of cost-saving measures based on coverage categories.

SAVINGS: Increasing the number of coverage categories would allow for specialized classifications, the savings of which are estimated to be significant yet indeterminate.

C. INCREASE COPAYMENTS FOR EMERGENCY ROOM VISITS

Across the state of Florida, freestanding emergency rooms are being created to address the growing demand for, and utilization of, emergency room access for health care. Across all Florida hospitals, the average cost of an emergency room visit was $3,736 from April 2012 through March 2013.[36]

35 See Chapter 60P-2, Florida Administrative Code. Eligible dependents may only participate under family coverage.

36 Customized search of all emergency department utilization data across all Florida counties, with averages and percentages

A copayment of $100 is only a small fraction of the average cost of an emergency room visit (2.7 percent of the average cost). With an easily affordable copay, there is little incentive for state employees to better anticipate their health needs by regular visits to primary care practitioners, or to obtain lower cost care at urgent care facilities. An increase of copayment to $250 for emergency room visits would cover more of the total cost (6.8 percent of the average cost), and incentivize employees to seriously weigh the severity of their condition, better gauging whether an emergency room visit is worth the cost. For habitual ER users, the copayments would quickly add up and deter unnecessary ER use. For those times when ER use is warranted, such that hospital admission is suggested by the attending physician, the $250 copayment could be waived, thereby providing a balance between deterrence and necessity.

RECOMMENDATION: Increase copays for emergency room (ER) visits from $100 to $250 to deter an increased utilization and reliance on costly ER care. Such an increase would decrease state costs and discourage easy-access utilization of ERs.

SAVINGS: Increasing copayments for ER visits would disincentivize overuse of unnecessarily expensive ER care, the savings of which are estimated to be significant yet indeterminate.

D. IMPLEMENT A STATE EMPLOYEE WELLNESS PROGRAM

Given that an estimated 75 percent of all health care spending is attributed to preventable medical conditions, an emerging trend among employers is to offer incentives to employees based on leading health indicators, primarily tobacco use and body mass index, as part of employee wellness programs.[37]

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. According to the Wellness Council of America, a $1 investment in wellness programs saves $3 in health care costs.[38] 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.[39,40]

However, not all prevention programs are created equal.[41] Successful wellness programs must focus on only encouraging prevention behaviors that are evidence-based, that reflect nationally-recognized health indicators, and that have been proven to reduce undesirable costly outcomes, such as chronic diseases, emergency room visits, and hospital readmissions. A well-designed

separately derived from available data. "Emergency Department Data Query Results for Time Period: April 2012 through March 2013." Search performed at www.floridahealthfinder.gov.

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

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

39 Good, Crystal. "Wellness Matters." Wellness Councils of America. 2006. Available at www.kaisermedicalmanagement.com/app/download/6769770804/wellness_matters_jk.pdf

40 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/0907HEALTHMGMTINITIATIVES.PDF

41 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. But compare, e.g., Liu, Hangsheng, Harris, Katherine M., Weinberger, Sarah, Serxner, Seth, Mattke, Soeren, and Exum, Ellen. "Effect of an Employer-Sponsored Health and Wellness Program on Medical Cost and Utilization." Population Health Management. Volume 16. Number 1. 2013 (showing cost reduction and decreased emergency room utilization in a PepsiCo health and wellness program).

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 employee wellness programs, Florida's health care and insurance costs will reduce dramatically.

RECOMMENDATION: The Florida Legislature should implement a state employee wellness program adopting only specific practices that have evidenced a high return on investment. The state employee wellness program will provide incentives and disincentives for state employees based on nationally-recognized, evidenced-based health indicators.

SAVINGS: A 1 percent reduction in public employee health care expenditures through Employee Wellness Programs would save the state $18 million annually.

E. AUDIT THE RETIREE DRUG SUBSIDY (RDS) PROGRAM AND CONVERT TO AN EMPLOYER GROUP WAIVER PROGRAM (EGWP)

More than 28,000 Medicare-eligible retirees participate in the State Group Insurance Program, with the majority (83.4 percent) enrolled in the PPO Standard Plan.

For Medicare enrollees, the state receives reimbursement from the federal 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 should 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.[42] Another estimate is that average savings can be as much as $840 per beneficiary, which would total $20 million per year for Florida.[43]

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.[44]

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.[45] Such an audit could be performed by a private vendor at no cost, with compensation coming from a percentage of the recoveries.

42 Praxis Benefits. "Florida Retiree Health Care Plan." August 20, 2012

43 May, Steven P. and Liner, David M. "EGWP/wrap: Why now?" Milliman White Paper. September 2011. Available at http://publications.milliman.com/research/health-rr/pdfs/egwp-wrap-why-now.pdf.

44 Florida Department of Management Services and Buck Consultants.

45 Praxis Benefits.

RECOMMENDATION: Audit the Retiree Drug Subsidy (RDS) 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 (EGWP) to increase the subsidies available under Medicare Part D.

SAVINGS: Florida could save $25 million per year by converting to an Employer Group Waiver Program.

F. REFORM THE STATE GROUP INSURANCE PROGRAM BY MOVING TO A DEFINED EMPLOYEE CONTRIBUTION MODEL

Florida currently provides health insurance to public employees through a defined benefit and a 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 the current 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.[46]

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

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.

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 lower costs for the employees as well as for the taxpayers.

In addition to lowering costs 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 systems, service levels, and costs.

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 relatively 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.[47] 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.

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 considering alternatives to traditional health benefits such as defined employer contribution models.

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, but was not passed by both chambers. 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.

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.[48]

RECOMMENDATION: The Legislature should shift the State Group Insurance Program to a defined employee contribution model.

SAVINGS: Switching to a defined employer contribution model could save the state $380.3 million annually.[49]

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

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

49 Estimate is based on projections from: Self-Insurance Estimating Conference. "State Employees' Group Health Self-Insurance Trust Fund." Post Legislative Session Impact Outlook for the Fiscal Years Ending June 30, 2013 through June 30, 2018. Adopted August 8, 2013. The cost savings estimate is based on the calendar year and assumes that the defined employer contribution model would be implemented on January 1, 2016. The estimate is based on the Financial Outlook's "Operating Gain/(Loss)" for FY2015-16 (-$279.7 million) and FY2016-17 (-$493.2 million), provided on page 1, and is derived by assuming half of the operating loss for FY2015-16 ($139.85 million) and for FY2016-17 ($246.6 million) would be saved in the first year of implementation (calendar year 2016) and thereafter.

6 FLORIDA SHOULD MAXIMIZE EXISTING REVENUE SOURCES

RECOMMENDATION

Florida should maximize its collection of legally-owed revenue (under existing statutes) by:

- passing the appropriate legislation to collect the sales and use taxes owed for online purchases;
- expanding the DOR's sales and use tax audit coverage, and the Certified Audit Program; and
- taking every practical effort to collect all appropriate federal funds for which Florida is eligible, without spending additional taxpayer money under current policies.

EST. SAVINGS $220m

Florida prides itself on having one of the lowest tax rates in the country, and is one of seven states that does not collect a personal income tax. While this is viewed as positive economic and fiscal policy, Florida should ensure that the revenue that has been targeted is collected.

Three actions that the state can take to collect legally-owed revenues are:

- Collecting the Sales and Use Tax on remote sales;
- Expanding audit coverage to ensure compliance with current tax law; and
- Capitalizing on federal dollars available under current policies.

Considering the limited options for revenue collection in Florida, the state should strengthen oversight to ensure compliance of tax law, and maximize the use of available revenue sources.

A. COLLECT LAWFULLY-OWED SALES AND USE TAX ON REMOTE SALES

The most significant tax compliance and collection issue facing Florida and other states is the application of sales and use taxes on 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 *(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 erodes Florida's tax base and 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.[50] Another report in 2011 estimated tax revenue losses of $454 million in 2012.[51]

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.

Recent legislation—known as "E-fairness" or "affiliate legislation"—considered in Florida 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 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.[52]

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 and the growth of revenue collected though the compact, it is not unreasonable to assume a 10 percent growth per year in collections—at least in the short-term. 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.

50 Bruce, Donald and Fox, William. "State and Local Government Sales Tax Revenue Losses from Electronic Commerce." University of Tennessee. April 13, 2009.

51 Arduin, Laffer & Moore Econometrics. "Pro-Growth Tax Reforms & Internet Based Sales." September 2011.

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

RECOMMENDATION: The Legislature should adopt both "E-Fairness" legislation and legislation to become a full member of the Streamlined Sales and Use Tax Agreement (SSUTA). Any additional revenue should be used to offset another tax that is currently imposed on Floridians.

SAVINGS: Florida is currently passing up approximately $58.5 million in tax revenues for online sales that are legally owed.

B. EXPAND AUDIT COVERAGE

The Department of Revenue (DOR) 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.[53] Increasing the number of auditors—either state employees or private auditors—along with enhancing the state's Certified Audit Program can help ensure 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.[54]

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. Once fully operational, 50 auditors— which would cost approximately $3 million—could increase state and local revenues by $12 million annually.[55]

Another method to increase audit coverage is to expand the Certified Audit Program, where DOR Certified Public Accountants (CPAs) perform audits at no cost to the state by allowing businesses to participate in the program within a reasonable time after being issued a Notice of Intent to Audit by the DOR.[56]

Changing the rules that prohibit 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. During the 2013 Session, HB 495 would have accomplished this expansion of the Certified Audit Program, but did not pass the Senate.

RECOMMENDATION: The Legislature should 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, the Legislature should 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.

SAVINGS: An additional 50 auditors (at a cost of $3 million) would bring back an additional $12 million in uncollected tax revenues annually.

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

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

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

56 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.

C. INCREASE THE DRAWDOWN OF AVAILABLE FEDERAL DOLLARS

Florida has failed to receive all of the federal money for which it is eligible, meaning that Floridians are losing out on various federal incentives designed to return money to the states. This recommendation focuses on monies that do not require additional spending or commitment, and does not recommend increasing state spending to drawdown federal dollars.

In 2003, the Chief Financial Officer of Florida issued a five-year (competitively selected) contract to find and help secure federal funds to which the state was legally entitled. Under this contract, the state collected approximately $150 million with a minimal amount of effort and incurred no out-of-pocket costs to secure the funds. However, there likely remain hundreds of millions of dollars of federal money to which Florida is legally entitled.

The state should either undertake an expanded contract or attempt to collect this money in-house. In order to encourage the agencies to focus appropriate attention and effort, the Legislature could both require the agencies to collect this revenue as well as provide incentives for the agencies to maximize or capture revenue.

Prior to the 2003 contract, the vendor compiled a list of such funds that exceeded $900 million. The contract resulted in $150 million. With a similar effort, the state should be able to collect at least $150 million in FY 2014-15, mostly in recurring revenue.

A specific example of such available federal dollars that the state currently under-utilizes is Section 179D of the Internal Revenue Code, which allows the state to receive federal funds for energy efficiency enhancements to state-owned facilities. This program is an easy opportunity for the state to collect additional revenues, yet Florida has consistently not taken advantage of these available revenue sources.[57]

RECOMMENDATION: The Legislature should make every practical effort to collect all appropriate federal funds for which Florida is eligible under current existing laws and policies (including the maximization of Section 179D incentives) without spending additional taxpayer money.

SAVINGS: Based on the success of the 2003 contract, Florida is likely eligible for an additional $150 million in federal revenues.

57 For more information on this deduction, see Florida TaxWatch *Briefing* "Florida's Revenue Opportunities Under §179D"

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TAXWATCH CENTER FOR GOVERNMENT EFFICIENCY STAFF

Robert E. Weissert, Esq. — *Chief Research Officer & General Counsel*

Laurence D. Lavargna — *Research Analyst*

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RESEARCH TEAM FOR THIS REPORT

Robert Weissert	Chief Research Officer	*Project Leader*
Laurence D. Lavargna	Research Analyst	*Lead Researcher*
Chris Barry	Director of Publications	
Tamara Y. Demko, JD, MPH	Director of the TaxWatch Center for Health & Aging	
Nathan Waibel	Research Analyst	
Elle Piloseno	Research Associate	
Benjamin Taplin	Research Intern	

All Florida TaxWatch research is done under the direction of Dominic M. Calabro, Editor, Publisher, President & CEO

FOR MORE INFORMATION: WWW.FLORIDATAXWATCH.ORG

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106 N. Bronough St., Tallahassee, FL 32301 o: 850.222.5052 f: 850.222.7476

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