

Research Report

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Federal Grants Still Shortchanging Florida

Two years ago, Florida TaxWatch reported that while Florida was still getting shortchanged by the federal grants system, there had been some improvement. However, based on the latest data (FY 1997), that improvement was short-lived. Not only does Florida receive less in federal grants to state and local governments than almost every other state, it has slipped even further back.

Per capita grant receipts. Florida received \$8.504 billion in federal grants in aid during fiscal year 1997. This is equal to \$580.35 per Floridian and compares to \$846.38 per capita nationally. This ranks Florida 49th in the amount of per capita aid received. Only one state -- Virginia -- received a smaller amount per person, receiving only \$522 per resident in 1997. The District of Columbia and the territories of American Samoa, Guam, Northern Marianas, Puerto Rico and the Virgin Islands also receive considerably more in per capita aid than Florida.

If Florida received a share of all federal grants equal to its share of all federal taxes paid, Florida would have received \$3.9 billion more than it did in FY 1997.

This is particularly discouraging because this new data represents a reversal of a trend showing Florida improving its fair share allocation slightly during the 1990s. For many years and as recently as 1990, Florida ranked 50th among the 50 states in per capita grants. In 1991 it moved to 49th, in 1994 it rose to 48th. The last time Florida TaxWatch examined this issue -- in 1996 using 1995 data -- Florida was at its highest ranking ever - 46th.

The level of total federal grants to all states did not change much from 1995 to 1997. Uncle Sam disbursed \$224.2 billion in 1995 and \$224.4 billion in 1997. Although the U.S. total held steady, Florida's total funding for grants declined. This total fell more than one-half billion dollars, from \$9.078 billion in 1995 to \$8.504 billion in 1997. Since the population increased, U.S. per capita receipts dropped from \$866 in 1995 to \$846 in 1997. Florida's per capita grants decreased even more, falling from \$650.62 to \$580.35, an 11% drop. Nationwide, grant disbursements have fallen in areas such as AFDC, housing and labor.

Besides Florida and Virginia, the other bottom five states in per capita receipts are Nevada (\$586), Indiana (\$604) and Kansas (\$624.) The top five states in per capita

receipts are Alaska (\$2,140), North Dakota (\$1,676), Wyoming (\$1,587), New York (\$1,344), and South Dakota (\$1,330). (See Table 2.)

Table 1
Per Capita Federal Aid and Federal Tax Burden in Fiscal Year 1997

	Total	DOT	HUD	Medicaid	AFDC	Labor	Other	Federal Tax Burden
Florida	\$580.35	\$60.79	\$40.01	\$241.32	\$25.08	\$14.67	\$135.57	\$5,561
Rank	49	49	44	46	24	39	49	19
U.S. Avg.	\$846.38	\$92.27	\$60.99	\$351.96	\$35.73	\$19.20	\$210.76	\$5,486

Source: Florida TaxWatch and the U.S. Department of Commerce, July 1998.

Table 2
Per Capita Federal Grant Receipts and Estimated Federal Tax Burden for Grants
FY 1997

State	Tax Burden Per \$ of Aid	Rank	Per Capita Fed Grants	Rank	State	Tax Burden Per \$ of Aid	Rank	Per Capita Fed Grants	Rank
Alabama	\$0.84	17	\$806.45	27	Montana	\$0.59	8	\$1,126.99	9
Alaska	\$0.44	2	\$2,140.34	1	Nebraska	\$1.03	30	\$740.76	36
Arizona	\$0.94	24	\$736.65	38	Nevada	\$1.52	49	\$586.31	48
Arkansas	\$0.68	11	\$905.05	17	New Hampshire	\$1.32	44	\$718.14	40
California	\$1.02	29	\$837.16	25	New Jersey	\$1.39	45	\$819.79	26
Colorado	\$1.40	46	\$627.86	45	New Mexico	\$0.51	3	\$1,244.05	6
Connecticut	\$1.43	47	\$888.32	18	New York	\$0.75	14	\$1,344.41	4
Delaware	\$1.08	34	\$859.69	20	North Carolina	\$0.87	21	\$846.33	23
Florida	\$1.46	48	\$580.35	49	North Dakota	\$0.41	1	\$1,675.93	2

Georgia	\$1.04	32	\$730.50	39	.	Ohio	\$1.08	35	\$744.37	35
Hawaii	\$0.84	19	\$997.84	14	.	Oklahoma	\$0.84	18	\$756.71	34
Idaho	\$0.84	20	\$773.63	33	.	Oregon	\$0.89	23	\$879.76	19
Illinois	\$1.25	40	\$781.44	31	.	Pennsylvania	\$1.02	28	\$854.24	21
Indiana	\$1.31	43	\$603.54	47	.	Rhode Island	\$0.76	15	\$1,158.71	7
Iowa	\$1.06	33	\$693.06	42	.	South Carolina	\$0.83	16	\$794.46	29
Kansas	\$1.26	42	\$624.44	46	.	South Dakota	\$0.51	4	\$1,330.42	5
Kentucky	\$0.69	12	\$947.40	16	.	Tennessee	\$0.88	22	\$848.54	22
Louisiana	\$0.63	9	\$1,024.04	12	.	Texas	\$1.10	36	\$678.21	43
Maine	\$0.63	10	\$1,109.11	10	.	Utah	\$0.95	25	\$658.04	44
Maryland	\$1.25	41	\$775.37	32	.	Vermont	\$0.74	13	\$1,020.27	13
Massachusetts	\$1.01	27	\$1,040.44	11	.	Virginia	\$1.67	50	\$522.40	50
Michigan	\$1.18	39	\$740.46	37	.	Washington	\$1.11	37	\$801.34	28
Minnesota	\$1.03	31	\$843.35	24	.	West Virginia	\$0.52	6	\$1,156.55	8
Mississippi	\$0.58	7	\$961.42	15	.	Wisconsin	\$1.15	38	\$699.59	41
Missouri	\$0.99	26	\$783.32	30	.	Wyoming	\$0.52	5	\$1,587.45	3

Source: Florida TaxWatch and the U.S. Department of Commerce, July 1998.

Florida stands near the bottom in almost all grant program areas. (See table 1.) Five of the largest grant categories and Florida's per capita grant ranking for FY 1997 are: Medicaid - 46th; Transportation - 49th; housing and community development - 44th ; AFDC - 24th; and Job Training Partnership Act and other employment services - 39th. In the miscellaneous "other" grant category Florida ranks next to last in per capita receipts. This category contains a myriad of grant programs and accounts for nearly one-quarter of all federal grants distributed to the states.

Grants received relative to taxes paid. Florida also gets shortchanged when grants are viewed as a return on federal taxes paid. If you consider that while Florida ranks 49th in per capita grants but 19th in per capita federal taxes paid, the disparity is clear. By

comparing a state's share of total federal taxes paid to its proportional share of grants received, an approximation of what grants "cost" a state can be calculated. Using this measure, federal grants cost Florida taxpayers \$1.46 for each \$1.00 returned to the state in grants. This is the second highest price (49th best return) in the nation.

The price of Florida's federal grants has increased 13 cents on the dollar since our last analysis in 1995, when they cost \$1.33. Florida's rank was 44th. While Floridians' total federal tax bill has increased 14.5%, our grant receipts have fallen 6.3%. Florida contributes 5.5% of all federal taxes and gets 3.8% of all federal grants.

Florida is not the only state getting shortchanged on grants. Twenty-four others paid a premium for aid, led by Virginia (\$1.67), Nevada (\$1.52), and Florida (\$1.46).

For 26 states federal grants are a bargain. North Dakota tops the "receiver" states, paying 41 cents on the dollar for aid. Large subsidies were also enjoyed by Alaska (44 cents), New Mexico (51 cents), South Dakota (51 cents) and Wyoming (52 cents).

U.S. taxpayers paid \$1.47 trillion in taxes to Washington in 1997 and \$224 billion was returned to the states in grants. Florida paid \$81.5 billion in federal taxes, or about 5.5% of total federal taxes paid. However, Florida only received \$8.5 billion or 3.8% of the total grants.

If Florida received a share of all federal grants equal to its share of all federal taxes paid, federal grants to Florida in FY 1997 would have equaled \$12.4 billion, or \$3.9 billion more than it actually received.

Why Does Florida Continue to Subsidize Other States?

There are a number of factors that determine how much a state receives in federal grants. A state's spending decisions do have some impact. If Florida does spend less in matching programs, it will get less aid. Florida should not spend state money simply for the purpose of acquiring more federal funds. Florida will probably never become a net receiver of federal grants. But Florida should do everything possible to maximize federal funding within the state's spending decisions. Improving Florida government's grant seeking efforts is part of the answer.

But it is the decisions made in Washington that have the most impact on grant "fairness" and there is no denying that Florida is not treated equitably. It often seems that federal allocations are governed by old fashioned politics and maintenance of the status quo.

Not every state should expect a one-to-one return from federal grant programs. Grants programs can be used to redistribute tax dollars to states that have relatively greater program needs and relatively fewer resources. Matching grant programs can also be used to encourage states to spend more than they normally would for nationally important programs. Under these scenarios, it is necessary for taxpayers in some states to subsidize other states' programs.

However, a December 1996 General Accounting Office report reveals that most federal grant decisions do not promote such strategies. It found that for the most part, the federal grant system does not encourage states to use grants as a supplement rather than as a replacement for spending. It also concluded that federal aid is not targeted to states with higher needs and lower fiscal resources.

The federal government uses many complex formulas to decide how to distribute aid to the states. Unfortunately, many formulas are outdated and political barriers by "winner states" make it difficult to bring about change. Many formulas rely on population measures, not measures of the need. In addition, many federal funding programs have used decennial census information in their formulas. Not using annually revised data obviously hurts a growth state like Florida.

Although it is difficult to determine, the change to 1990 census data may have helped lead to the improvement in Florida's grant ranking during the mid-1990s. But the latest data shows that as the decade is passing and population estimates are again becoming outdated, Florida is falling back. Also, back in 1992, the Bureau of the Census decided not to use adjusted 1990 census data. That adjusted data would have included many uncounted Floridians. It is estimated that the decision to not use this more accurate data in grant formulas will cost Florida \$180-\$200 million in the 1990s.

Many grant programs also include "hold harmless" provisions, which ensure that a state's amount of funding does not decrease. This makes it extremely difficult for states like Florida to "catch up."

Case in Point: Transportation Grants

A good example of Florida's grant deficit is transportation, the second largest grant program behind Medicaid. Florida has been a donor state ever since the Federal Highway Trust Fund (FHTF) was created in 1956, getting back only 79 cents on each dollar of federal transportation taxes paid. Despite efforts to address this, Florida continues to help fund other states' transportation systems. From 1992 to 1996, during the last federal transportation funding act, Florida also had a return of 79 cents per dollar. Only six states fared worse.

Outdated formulas penalize large, rapidly growing states like Florida. There are numerous, complex allocation formulas, generally based on population, density and construction costs. These have not been adequately adjusted to reflect a changing nation, especially a changing Florida.

In June 1998, the President signed the new federal highway bill -- known as the Transportation Equity Act for the 21st Century (TEA-21) -- which covers funding through 2003. The law marks an improvement for Florida. Although it does not go as far as some had hoped, it provides more dollars for Florida and gets the state's taxpayers a better return on their federal transportation investments. That said, closer inspection reveals that Florida's increase is not as great as it might seem.

Florida will receive an average of \$1.209 billion annually over the life of TEA- 21 (1998 to 2003.) This is \$440 million a year more than it received during ISTEA (1992 to 1997). The increased funding is good news, but it must be remembered that in the last year of ISTEA Florida received approximately \$1 billion. This is the amount that was used as a starting point when the Florida Department of Transportation built the state's five-year transportation work plan. So, the real increase for Florida will be closer to \$200 million a year. And of that amount, the State has flexibility in spending only about \$135 million a year.

Florida will receive 90.5 cents back for each dollar contributed to the Federal Highway Trust Fund. This improvement is tempered by the fact that the new law guarantees all states at least a 90.5% return. This means that while Florida is getting more back than before, it still has the lowest return in the nation. Thirteen other states are at 90.5%.

Moreover, the 90.5% is based only on funds that are allocated by formula. When all highway funds are considered, Florida's return is closer to 87 cents on the dollar. Florida's delegation and the Donor State Coalition had pushed for a return of 95 cents of all funds. Fierce political battles led to final resolution of the bill being pushed nine months past the "deadline" for reauthorization. In the end, Florida is still getting shortchanged. (To learn more about transportation equity in Florida -- both interstate and intrastate -- see Florida TaxWatch's August 1998 publication *Transportation Funding Equity in Florida: An Analysis of Federal and State Allocations.*)

Florida's "Fair Share" Study

On a positive note, Florida has taken a unique step by commissioning the preparation of a "Fair Share" study, which will analyze the flow of public and private grant dollars in the state, and suggest specific ways in which obstacles to achieving a fair share can be remedied. This study is being prepared by John L. Adams & Company through a contractor to the State (the Hialeah Chamber of Commerce). The report should be completed in time for use in the 1999 Legislative Session.

John L. Adams and Company, founded in 1976, was one of the first grants consulting firms in the country to provide grants acquisition expertise and services to governments and non-profit organizations. The Company has been researching the issue of Florida losing money unfairly and unnecessarily from federal sources for twenty years. It is their contention that the resources necessary to meet most of Florida's needs are available; the problem is that the State has not found ways to successfully access them.

Adams points out that Florida's grant problem also includes the annual loss of funds from among the State's 1,744 grant making foundations, and the effectiveness in the use of funds appropriated for the State's own 208 assistance programs.

Past research has indicated that as much as 50% of the \$500 million disbursed annually in grants by in-state private foundations goes to support projects in other parts of the country. Other states (e.g., Pennsylvania) have found ways to successfully encourage a

higher degree of in-state use of these resources from in-state foundations. Adams also believes that the \$2.1 billion disbursed by Florida's 208 programs could be better used to leverage additional federal and private monies, thus magnifying their impact.

Time for a Change

It may be time to rethink the federal grant system. Congress needs to decide what they want it to accomplish and design the allocation formulas to best achieve those goals. In fact, outdated federal grant programs may not fit in with the growing government trend of devolution.

Again, transportation is a good example. When construction of the interstate highway system was begun in 1956 it was thought that since it was to be a nationwide system, all of the nation's motorists should help pay for it. Worried that states without adequate taxbases would be left out, Congress created the Federal Highway Trust Fund to collect and redistribute federal gas and excise taxes to the states. This may have been a sensible approach to developing a national infrastructure. However, with the interstate system complete, the FHTF may have outlived its usefulness.

One idea is that the federal gas tax should be reduced to a level to provide for only upkeep of the interstate system and allow the states to use the rest to fund their transportation systems as they see fit. Not only would states get to keep the revenue they raise, but the federal "overhead" lost each year in the current system would stay in the states. U.S. Senator Connie Mack has introduced such a proposal which understandably has met with much resistance from donee states. Senator Bob Graham has also supported the idea.

Graham and Mack have worked to correct the inequities in the current federal grant system. While there have been some successes, resistance from "receiver" states has been strong. While there is certainly room to fix some of the flaws in the current process, it may be time for more comprehensive reform.

Florida TaxWatch will continue to monitor this issue and work with John L. Adams & Company to address the issues and recommendations contained in its upcoming "Fair Share" report.

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