



**Report and Recommendations
of the Florida TaxWatch
Government Cost Savings Task Force
to Save More Than \$3 Billion**



March 2010



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Government Cost Savings Task Force

Dear Fellow Taxpayers:

It is our special responsibility to present the Report and Recommendations of the 2010 Florida Government Cost Savings Task Force to Save More Than \$3 Billion. This Report is the product of more than 30 concerned Floridians, on behalf of all of Florida's taxpayers, working for more than a year to find \$3-\$4 billion in constructive, pragmatic, principled cost saving and wise budget reductions. This work builds on the 30-year-old mission and successful track record of Florida TaxWatch to improve taxpayer value, citizen understanding, and government accountability. Never has this mission been more vital to the citizens of our state.

We respectfully submit the enclosed recommendations with full recognition that our elected officials must serve broad and varied constituents, and reminding the readers of this Report that all of us involved also represent the families and businesses of our state – our friends and neighbors who use Florida's education system, social services, transportation systems, and all of the other available services and resources of this state. These services are vital to our families, businesses, and communities, but the reality is, our resources are severely constrained and Florida's budgeting and financial accounting systems make it difficult to make smart, discrete, and judicious budget reductions.

Floridians today are faced with economic challenges likely more difficult than any faced by residents of our state for decades. The issues we must confront are not simply fiscal shortfalls; they include a state and nation in economic crisis causing a greater need for aid and services combined with a declining tax base. Luxury and add ons are replaced by necessity and must haves. Even further, what we once defined as "necessity and must haves" may no longer fit as comfortably or as rationally under this definition. These challenges, while daunting, also present opportunities for change that we cannot afford to miss. And the Floridians of today and tomorrow – including our children and grandchildren – will judge us accordingly.

Our elected officials and policy makers have a challenging and difficult job – and our Task Force was convened to help chart a path for a leaner, more efficient government. Overarching observations of the Task Force are the recognized need for: 1) a more modern and useful financial, accounting, and budget system; and, 2) focused attention to revise the counter-productive incentive structure of state government. A new effort to develop a "Omnibus Cost Saving and Productivity Improvement Act of 2010, 2011, and 2012" can build a foundation to ensure this occurs immediately and for years to come.

Yes, drastic times call for extraordinary actions, and as such, the Florida TaxWatch volunteer leadership called our research institute to action to redouble our ongoing efforts to improve our government and increase taxpayer accountability with the creation of the Florida TaxWatch Government Cost Savings Task Force. We are honored by this opportunity to serve with Florida government during this financial crisis and on behalf of all of Florida's taxpayers.

David A. Smith
Chairman

Marshall Criser, III
Chairman-Elect

Dominic M. Calabro
President and CEO

Improving taxpayer value, citizen understanding, and government accountability

The Government Cost Savings Task Force consists of distinguished business and community leaders from around the state who volunteered their time and expertise to help Florida TaxWatch identify recommendations for a better government. Without their leadership and participation, we would not be able to present this report.

Florida TaxWatch Government Cost Savings Task Force

Task Force Chairman Mr. David A. Smith Florida TaxWatch Chairman President, and CEO (Ret.) PSS World Medical	The Reverend J. Allison DeFoor, II Managing Partner Castille, DeFoor, & Armstrong	Mr. Patrick Neal President Neal Communities of Southwest Florida, Inc.
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Mr. Chuck Cliburn Senior Vice President & Florida Client Executive ACS	Mr. David Mann Education Workgroup Chair Chairman & CEO – North Florida SunTrust Bank	The Honorable Will Weatherford Florida House of Representatives (<i>Designee of the House Speaker</i>)
	The Honorable Bill McCollum Attorney General State of Florida	Mr. Mark Wilson President and CEO Florida Chamber of Commerce
	Mr. James McDonough Public Safety Workgroup Chair Former Secretary of the Florida Department of Corrections	Mr. John Zumwalt, III Chairman and CEO PBS&J

The following Florida TaxWatch staff devoted their professional and administrative skills and experience to the Government Cost Savings Task Force, under the direction of **Dominic M. Calabro, President and CEO**:

Robert E. Weissert, Esq., Task Force Staff Director and Special Counsel to the President & CEO
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In addition to the Task Force members listed above, Florida TaxWatch thanks the many dedicated Florida state employees, across state agencies for their tremendous assistance in gathering the critical data, information, and necessary feedback to support this initiative.

The Work of the Government Cost Savings Task Force has been made possible through the generous philanthropic support of the following sponsors:

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Government Cost Savings Task Force

Vision Statement:

The Government Cost Savings Task Force is committed to maximizing taxpayer value by facilitating a more productive, innovative, and fiscally responsible government for the people of Florida.

Mission:

The Government Costs Savings Task Force will make recommendations to:

- Reduce costs without harming services
- Eliminate waste and duplication
- Encourage a culture of innovation
- Streamline and modernize government administration and operation

Guiding Principles:

1. Avoid cuts in direct services by reducing administrative costs first
2. Prioritize spending to focus resources on core functions of government
3. Intensify government efforts to collect money owed through all revenue maximization channels
4. Reform the incentive structure that discourages efficiency improvements
5. Improve oversight of expenditures and resources
6. Embrace and integrate technology and innovation to reduce costs



Government Cost Savings Task Force

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Chapter 1 - Purchasing & Asset Management Recommendations

Recommendation	FY 2010-11	FY 2011-12	FY 2012-13	Page
1 Reduce the number of goods and services exempted from competitive bidding requirements	\$50M - \$125M	\$50M - \$125M	\$50M - \$125M	2
2 Increase use of state term contracts to achieve economies of scale	\$200M	\$200M	\$200M	3
3 Improve enforcement of the Preferred Pricing Clause in state contracts and introduce penalties for misrepresentation	\$8M	\$8M	\$8M	5
4 Adjust annual budget appropriations to reduce “fourth quarter dumping”	\$80M	Substantial but indeterminate	Substantial but indeterminate	5
5 Dispose of unneeded state facilities and land holdings	\$43M	Substantial but indeterminate	Substantial but indeterminate	6
6 Restrict use of “stay in place” leasing	Up to \$1.2M	Up to \$1.2M	Substantial but indeterminate	7
7 Maximize use of leased space	\$4.1M	\$4.1M	\$4.1M	8
8 Consolidate management of small state vehicle fleets	Up to \$1.55M	Up to \$1.55M	\$3.5M	9
9 Owner controlled insurance program for construction projects	\$6.28M	\$6.28M	\$6.28M	10
10 Renegotiate non-client-service contracts	\$215M	\$215M	\$215M	10
11 Implement a statewide moratorium on purchase of office supplies	\$14M	\$14M	\$14M	10
12 Expand use of Department of Correction land for agriculture and other productive purposes	Substantial but indeterminate	Substantial but indeterminate	Substantial but indeterminate	11
TOTAL	\$623.13M - \$698.13M	\$500.13M - \$575.13M	\$500.88M - \$575.88M	

Chapter 2 - Operational Efficiency Recommendations

	Recommendation	FY 2010-11	FY 2011-12	FY 2012-13	Page
13	Increase use of electronic payment disbursements	\$23.08M	\$23.08M	\$23.08M	14
14	Increase use of electronic payment receipts	\$1M - \$1.5M	\$1M - \$1.5M	\$1M - \$1.5M	16
15	Implement an automatic computer shutoff system	\$3.12M	\$3.12M - \$8.97M	\$3.12M - \$8.97M	16
16	Create an eLearning-based Centralized Learning Academy for state employee training	\$3.7M - \$7.4M	\$3.7M - \$7.4M	\$3.7M - \$7.4M	17
17	Implement a statewide integrated time and scheduling system	\$2.3M	\$2.3M	\$2.3M	18
18	Consolidate call centers	\$1.5M	\$1.5M	\$1.5M	19
19	Maximize use of network printers	\$1.5M	\$1.5M	\$1.5M	21
20	Reduce printing and mailing costs	\$4.7M - \$7M	\$4.7M - \$7M	\$4.7M - \$7M	21
21	Benchmark operating expenses for each state agency	\$137.7M	Substantial but indeterminate	Substantial but indeterminate	22
22	Reduce Florida Retirement System (FRS) employer contribution rate for new hires	\$255M	\$255M	\$255M	23
23	Tie automatic COLA increase for public pension recipients to inflation with a 3 percent ceiling	Up to \$135M	Substantial but indeterminate	Substantial but indeterminate	25
24	Increase vesting period for FRS members from six to 10 years	\$16M	\$16M	\$16M	26
25	Reevaluate who is considered "special risk" for pension benefits	\$8M	\$8M	\$8M	26
26	Reduce the retirement credit for SMS employees from 2% to 1.6% and for Special Risk from 3% to 2%	\$64M	\$64M	\$64M	27
27	Transition to four-day workweek	\$4.7M - \$5.1M	\$4.7M - \$5.1M	\$4.7M - \$5.1M	28
28	Expand telecommuting program	\$7.5M	\$7.5M	\$7.5M	30
29	Expand use of teleconferencing to reduce state travel expenses	\$7.5M - \$18.9M	\$7.5M - \$18.9M	\$7.5M - \$18.9M	31
30	Implement a 401(a) FICA Alternative plan	\$10.1M	\$10.1M	\$10.1M	32
31	Implement a 401(a) Special Pay plan	\$1.3M	\$1.3M	\$1.3M	33
32	Standardize or eliminate annual leave accrual	\$1.76M - \$10.1M	\$1.76M - \$10.1M	\$1.76M - \$10.1M	34
33	Eliminate sick leave accrual	\$5.64M	\$5.64M	\$5.64M	35
34	Standardize payroll cycles	\$3.16M - \$4.56M	\$3.16M - \$4.56M	\$3.16M - \$4.56M	35
35	Increase state employee parking fees to make the parking system self-sufficient	\$750,000 - \$3.6M	\$1.1M - \$5.4M	\$1.1M - \$5.4M	36

36	Require reimbursement of training costs for certified law enforcement/corrections officers that terminate employment with the state and go to work for local government prior to completing two years of service	Substantial but indeterminate	Substantial but indeterminate	Substantial but indeterminate	37
37	Encourage and reward innovation and cost savings in state agencies	Substantial but indeterminate	Substantial but indeterminate	Substantial but indeterminate	37
TOTAL		\$699.01M - \$729.9M	\$426.66M - \$464.85M	\$426.66M - \$464.85M	

Chapter 3 - Corrections (Justice Reform) Recommendations

	Recommendation	FY 2010-11	FY 2011-12	FY 2012-13	Page
38	Require written justification for prison sentences given to individuals with sentencing scores of 44 or less	\$5.2M - \$26.1M	\$5.4M - \$27M	\$5.6M - \$27.9M	40
39	Expand electronic monitoring as alternative to prison sentences	\$5.5M	\$5.5M	\$5.5M	42
40	Expand adult post-adjudicatory drug courts	\$4.2M	\$4.2M	\$4.2M	43
41	Institute adult post-incarceration drug courts	\$1.8M	\$1.8M	\$1.8M	44
42	Increase the maximum gain time accrual allowed	\$26.7M - \$416.6M	Substantial but indeterminate	Substantial but indeterminate	45
43	Authorize the possibility of parole for certain offenders who were juveniles when sentenced	\$499,191 - \$4.99M	\$540,000M - \$5.4M	\$588,878M - \$5.88M	47
44	Authorize the possibility of parole for certain elderly offenders	\$126,457 - \$2.23M	\$185,295 - \$3M	\$226,815 - \$3.7M	47
45	Reclassify low level drug possession as a misdemeanor	\$10.4M	\$10.4M	\$10.4M	49
46	Expand work release programs	\$9.43M	\$9.43M	\$9.43M	50
47	Expand the Redirection program	\$2M	\$2M	\$2M	51
48	Expand programs that reduce recidivism to slow new prison construction	Substantial but indeterminate	Substantial but indeterminate	Substantial but indeterminate	52
TOTAL		\$65.86M - \$481.25M	\$39.46M - \$68.73M	\$39.75M - \$70.81M	

Chapter 4 - Revenue Enhancement Recommendations

Recommendation	FY 2010-11	FY 2011-12	FY 2012-13	Page
49 Improve collection of sales tax on remote sales – Streamlined Sales Tax	\$35M - \$50M	\$40.2M - \$57.5M	\$46.3M - \$66.1M	58
50 Collecting the tax on online hotel bookings from internet intermediaries	\$25M	\$25M	\$25M	59
51 Offer a temporary tax amnesty program	\$100M	-----	-----	60
52 Adding Department of Revenue tax auditors to increase tax compliance	\$871,000 - \$3.4M	\$7.5M - \$29.8M	\$7.5M - \$29.8M	61
53 Create a financial incentive to file tax returns electronically	\$8M - \$16M	\$6.5M - \$13M	\$5M - \$10M	62
54 Financial records data match	\$17M	Substantial but indeterminate	Substantial but indeterminate	63
55 Increase the number of lottery selling points	\$37M	\$37M	\$37M	64
56 Stop waiving penalties for late corporate filing fees	\$37.8M	\$37.8M	\$37.8M	65
57 Indexing tolls on the turnpike	\$49.9M	\$68.6M	At least 68.6M	66
58 Medicaid provider assessments	\$80M	\$80M	\$80M	66
59 Implement a cigarette and tobacco audit and compliance system	\$27M - \$69M	\$27M - \$69M	\$27M - \$69M	67
TOTAL	\$417.57 M - \$485 M	\$329.6M - \$417.7M	\$334.2M - \$423.3M	

Chapter 5 - Federal Revenue Maximization Recommendations

Recommendation	FY 2010-11	FY 2011-12	FY 2012-13	Page
60 Re-establish and enhance the Grants Clearinghouse Office within the Governor’s Office	Substantial but indeterminate	Substantial but indeterminate	Substantial but indeterminate	69
61 Contingency contract to drawdown federal funds already earned by Florida	\$150M	\$200M	\$200M	71
62 Centralized oversight of indirect cost allocation plans	Substantial but indeterminate	Substantial but indeterminate	Substantial but indeterminate	72
63 Getting Florida’s fair share of federal transportation funding	\$61.5M	\$61.5M	\$61.5M	72
TOTAL	\$211.5M	\$261.5M	\$261.5M	

Chapter 6 - Fraud Reduction Recommendations

Recommendation	FY 2010-11	FY 2011-12	FY 2012-13	Page
64 Implement stricter applicant eligibility screening	\$11.3M	\$11.3M	\$11.3M	76
65 Conduct durable medical equipment audits	\$5.8M	\$5.8M	\$5.8M	77
66 Outsource recovery of aberrant Medicaid claims (i.e., fraud, waste, and abuse expenditures)	\$22.5M - 45M	\$22.5M - \$45M	\$22.5 - \$45M	78

67	Increase penalties (minimum fines) for Medicaid overbilling	\$8.5M	\$8.5M	\$8.5M	80
68	Implement a point-of-sale time and attendance verification system for child care providers	\$17M	\$17M	\$17M	81
69	Implement automated pharmacy prior authorizations	\$12.5M - \$25M	\$12.5M - \$25M	\$12.5 - \$25M	81
70	Conduct audit to ensure only eligible dependents receive health insurance	\$5M - \$30M	\$5M - \$30M	\$5M - \$30M	82
71	Increase corporate fraud detection in Managed Care Organizations	Substantial but indeterminate	Substantial but indeterminate	Substantial but indeterminate	83
TOTAL		\$82.6M - \$142.6M	\$82.6M - \$142.6M	\$82.6M - \$142.6M	

Chapter 7 - Health Care Recommendations

	Recommendation	FY 2010-11	FY 2011-12	FY 2012-13	Page
72	Consolidate and/or outsource pharmaceutical repackaging	Up to \$2M	Up to \$2M	Up to \$2M	86
73	Expand the use of 340B purchasing for drugs	\$1.3M - \$2.5M	\$1.3M - \$2.5M	\$1.3M - \$2.5M	87
74	Find other funding sources for services to undocumented immigrants in state mental facilities	\$8M	\$8M	\$8M	88
75	Require all classes of employees to pay same premiums for health insurance	\$46M	\$46M	\$46M	89
76	Improve cost-sharing arrangement by replacing copayment plan with coinsurance plan	\$160M	\$160M	\$160M	89
77	Create a health insurance stipend for state employees	\$12M	\$12M	\$12M	90
78	Provide incentives based on controllable wellness indicators	\$12M	\$12M	\$12M	91
79	Reduce state insurance costs by reorganizing the state employee health insurance system	\$118.6M	\$118.6M	\$118.6M	93
80	Medicaid waiver program administrative service support	\$8.8M	\$8.8M	\$8.8M	95
TOTAL		\$368.7M - \$369.9M	\$368.7M - \$369.9M	\$368.7M - \$369.9M	

Chapter 8 - Education Recommendations

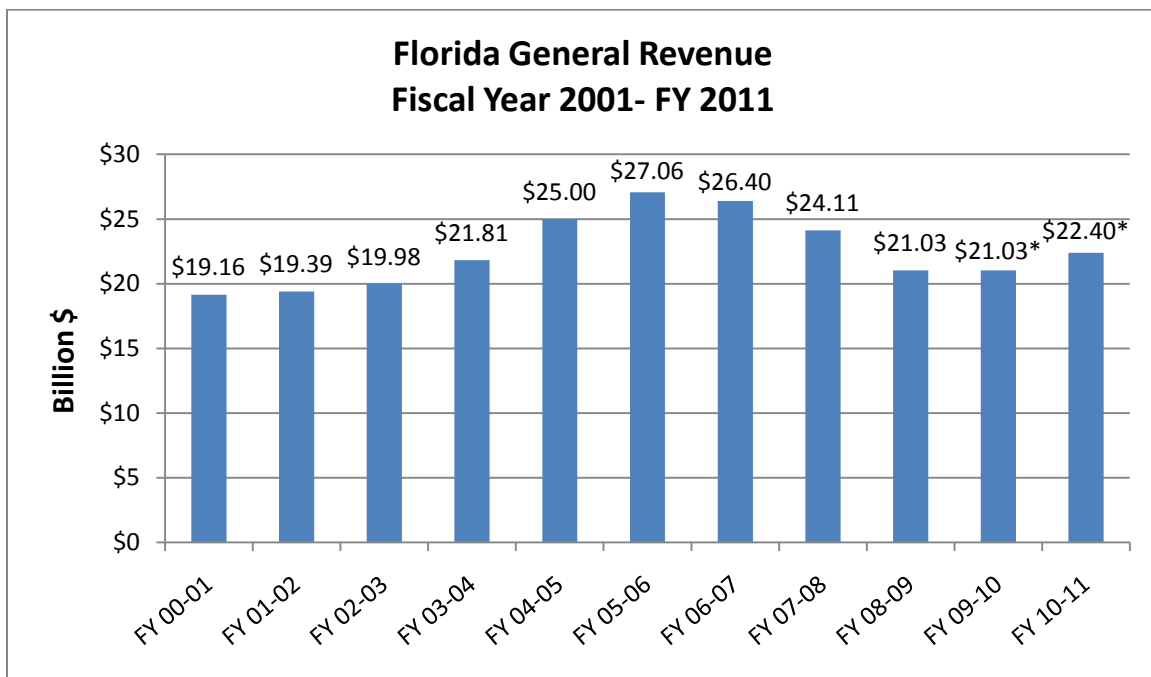
Recommendations	FY 2010-11	FY 2011-12	FY 2012-13	Page
81 Expand the Florida Tax Credit Scholarship Program	More than \$5M	More than \$5M	More than \$5M	98
82 Utilize competitive contracting in providing non-instructional services for K-12 schools	\$300M	\$300M	\$300M	98
83 Amend the Class Size Reduction amendment	\$350M	\$350M	\$350M	100
84 Reduce the cost of K-12 textbooks	\$53M - \$80M	\$53M - \$80M	\$53M - \$80M	101
85 Require undergraduate students to pay out-of-state tuition for each credit hour earned in excess of a threshold percentage of graduation requirements	\$31.8M - \$67.2M	\$31.8M - \$67.2M	\$31.8M - \$67.2M	103
86 Create a cap for Bright Futures Scholarships	\$33.1M - \$66.2M	\$33.4M - \$62.9M	\$32.1M - \$64.1M	105
87 Expand virtual education	Substantial but indeterminate	Substantial but indeterminate	Substantial but indeterminate	108
88 Implement web-based volunteer hour tracking system	Substantial but indeterminate	Substantial but indeterminate	Substantial but indeterminate	109
TOTAL	\$772.9M - \$868.4M	\$773.2M - \$865.1M	\$771.9M - \$866.3M	

	FY 2010-11	FY 2011-12	FY 2012-13
Total Estimated Savings	\$3.24 Billion - \$3.77 Billion	\$2.78 Billion – \$2.9 Billion	\$2.78 Billion - \$2.91 Billion

Government Cost Savings Task Force

Introduction

The 2010 Florida Legislature is facing yet another in a series of extremely tough budget years. The recession has taken a toll on state revenues. General revenue collections – the main pot of state money for education, health and human services, and public safety – are \$6 billion less in the current year than they were at the high point in FY 2005-06 (see Figure 1). As a result, over the past three years the state budget has been reduced by \$7 billion.



Source: Florida TaxWatch and the Florida Office of Economic and Demographic Research

*Estimates from the December 4, 2009 General Revenue Estimating Conference

Legislators are coming into the 2010 General Session with a little more anticipated general revenue than in the previous year – for the first time in four years; however, the \$1.3 billion growth in revenues will not even pay for the deficit in the state’s Medicaid program. With the potential receivable amount of federal stimulus dollars for Florida FY 2010-11 still very much in question, lawmakers are looking at a budget shortfall of as much as \$3.2 billion and perhaps an even larger one in FY 2011-12.

The budgets of the past few years have been balanced with a combination of painful cuts in services and the state’s employment of temporary measures such as the federal stimulus money and trust fund sweeping. And while the economy – and therefore revenues – is expected to pick up some steam in the near future, the state’s budget problems will likely not end this year.

When the federal stimulus money goes away for good, the state will have to find a way to make up for this hole and potentially other non-recurring measures.

Now is the time to enact reforms that will save money the first year and beyond through increasing efficiency, reducing fraud, and enacting smarter ways to stretch available revenues as far as possible without further cutting core services for Florida's most vulnerable.

In addition to cost savings and efficiencies, there are recommendations to help Florida get a fair share of (recurring) federal revenue. Also for consideration are additional recommendations to ensure that Florida is collecting all of the revenue that the law requires, which is certainly preferable to asking those that are already fulfilling their tax obligations to pay more.

In that spirit, the Florida TaxWatch Government Cost Savings Task Force offers the recommendations in this report. The report has 88 recommendations in eight different sections that could help the state save more than \$3 billion in the first year and beyond. The recommendations are grouped sections addressing the largest aspects of the budget and key areas where improvements will not reduce the services provided to Florida's citizens. Many of the recommendations improve not only efficiency, but also effectiveness, thereby improving services while freeing up much needed scarce resources.

The sections are:

- Purchasing and Asset Management Recommendations
- Operational Efficiency Recommendations
- Corrections (Justice Reform) Recommendations
- Revenue Enhancement Recommendations
- Federal Revenue Maximization Recommendations
- Fraud Reduction Recommendations
- Healthcare Recommendations
- Education Recommendations

The total estimated savings for all recommendations are: **\$3.2 billion - \$3.7 billion in FY 2010-11; \$2.9 billion - \$3.0 billion in FY 2011-12; and \$2.9 billion to \$3.1 billion in 2012-13.** These estimates are based on the best available data and assumptions made by the Task Force and experts in the public and private sectors. While the Task Force believes full implementation should produce similar actual savings, the focus should be on the cost savings ideas, not the estimates.

Florida TaxWatch has already shared the preliminary recommendations of its Government Cost Saving Task Force with legislative committees and work has begun on many of them. We look forward to working with the Legislature to implement as many of these recommendations as possible this session and in the future. Only by looking closely at the base budget, reducing unnecessary spending, increasing efficiency, and maximizing current revenues, which the Legislature has pledged to do, can the state get its fiscal house in order.

Government Cost Savings Task Force

Chapter 1 – Purchasing & Asset Management Recommendations

- 1. Reduce the number of goods and services exempted from competitive bidding requirements**
- 2. Increase the use of state term contracts to achieve economies of scale**
- 3. Improve enforcement of the Preferred Pricing Clause in state contracts and introduce penalties for misrepresentation**
- 4. Adjust annual budget appropriations to reduce “fourth quarter dumping”**
- 5. Dispose of unneeded state facilities and land holdings**
- 6. Restrict use of “stay in place” leasing**
- 7. Maximize use of leased space**
- 8. Consolidate management of small state vehicle fleets**
- 9. Utilize owner Controlled Insurance Programs (CIP) for construction projects**
- 10. Renegotiate non-client-service contracts**
- 11. Implement a temporary statewide moratorium on purchase of office supplies**
- 12. Expand use of Department of Correction land for agriculture and other productive purposes**

Introduction

The state of Florida owns a significant amount of land and facilities and makes billions of dollars worth of purchases of goods and services every year on behalf of service to the taxpayers. Managing valuable and varied assets – including real estate, facilities, and leases – and purchases across agencies and throughout the state is challenging and expensive.

When private enterprises seek ways to meet fiscal challenges, one of the first areas of focus for potential savings is in purchasing and asset management. As the Legislature looks to cut costs and focus scarce resources on critical core services, closely examining the state’s asset management functions and purchasing procedures must be a priority.

In January 2009, as the Legislature returned to Tallahassee for a Special Session to address the budget shortfall, Florida TaxWatch recommended the state “sell or lease unnecessary or underutilized state assets.” Since then, the state has reduced the size of its airplane fleet, identified millions of dollars worth of buildings and properties that could be sold, and reexamined the state’s leasing procedures. The Department of Management Services (DMS) should be commended for its responsiveness to the call to action through the direction of the Governor, Legislative leadership, and the House and Senate members; the state has started on a

positive trajectory and more can be done. The focus now needs to be expanded on improving how Florida negotiates and bids contracts, uses economies of scale to ensure the better purchasing prices, and doggedly pursues that the purchases made with the taxpayers' money are absolutely necessary and cannot be delayed in the name of vital, core services.

The following recommendations support the state's growing efforts to be more efficient in the management of assets (including leases) and purchases of goods and services. A number of public officials have made great strides in improving these processes and Florida TaxWatch pledges a continued encouragement of those efforts, which are especially important during these difficult fiscal times when Floridians can least afford inefficiency and waste.

1. Reduce number of goods and services exempted from competitive bidding requirements

In order to achieve the best value for Florida taxpayers on state purchases of goods and services, Florida law requires that "all purchase of commodities or contractual services in excess of [\$25,000] shall be awarded by competitive sealed bidding;" however, the same section of the code also identifies certain goods and services that are exempt from this competitive bidding requirement. These exempt goods and services account for approximately \$1 billion in purchases each year (not including the purchases that are exempted by the \$25,000 threshold). Some of the exemptions must be maintained for a variety of state service reasons, but questions remain whether all exemptions are necessary. Elimination of some or all of these exemptions from competitive bidding requirements should result in reduced costs as competition among valid vendors will drive down prices for these services. To reduce any increase in administrative costs associated with the competitive procurement process, the Florida Department of Management Services (DMS) may consider the establishment of state term contracts for some of the currently exempted goods and services. In 2009, President Obama initiated a movement towards greater efficiency in the procurement activities of federal agencies through the implementation of contracting reforms, including the maximization of competition. The Office of Management and Budget expects to save \$40 billion annually in federal taxpayer dollars as a result of the enactment of these reforms.¹

Florida's DMS estimates that a 25% to 30% cost savings is attributable to the agency's strategic sourcing through procurement of goods and services via state term contracts.² Based on this estimated reduction in procurement costs associated with statutorily prescribed bidding

¹ U.S. Office of Management and Budget, Executive Office of the President, "News Release: White House to Save \$40 Billion Annually through Contracting Reforms," July 29, 2009; available at: http://whitehouse.gov/omb/news_072909_reform.

² According to the Florida Department of Management Services Office of Inspector General, the performance standard for percent of state term contract savings is 28 percent for FY 2006-07 and FY 2007-08. See, Office of Inspector General, "Performance Measurement Report, Report No. PRM 2008-3: Assessment of the Fiscal Year 2008-09 Performance Measures Submitted by the Division of State Purchasing," January 22, 2008.

requirements and the use of state term contracts, when feasible, the state may be able to achieve substantial savings associated with reduced procurement costs.

Based on these findings, if the DMS reported 25 percent cost savings already achieved from competitive bidding state term contracts were executed for 50 percent of the \$1 billion worth of goods and services currently exempted from competitive bidding requirements, **the state would save more than \$125 million annually beginning in FY 2010-11.** If competitive bidding realized merely 10 percent savings on 50 percent of the \$1 billion worth of goods and services currently exempted, **the state would save \$50 million per year beginning in FY 2010-11.**

For those remaining types of goods and services where it is determined that the exemption from competitive bidding requirements should not be removed, state agencies should instead be required to justify the use of sole source contracting in lieu of a competitive bidding process for purchases above the statutorily defined dollar threshold.

Recommendation: The Legislature should amend Section 287.057 to direct the proper review of and eliminate some, most, or all exemptions from competitive bidding requirements and direct DMS to develop state term contracts for each currently exempted good and service, as feasible.

2. Increase the use of state term contracts to achieve economies of scale

State term contracts are negotiated by the DMS for selected goods and services using the power of volume discount to obtain prices from vendors that often are significantly lower than is normally charged. Section 287.056, *Florida Statutes*, requires state agencies to pursue the procurement of goods and services through state term contracts, when available.

DMS reported that \$804 million in state agency purchases were made through state-level term contracts in FY 2008-09.³ However, there are little assurances that state agencies fully comply with this requirement. Although purchases made through *MyFloridaMarketPlace* (MFMP) appear to have audits to verify compliance, state agencies do not always utilize MFMP when procuring goods and services. Full compliance with requirements to use state term contracts can serve to reduce state agency purchasing costs through lower pricing. In addition, it may allow DMS to negotiate better pricing in future state term contracts as the practice provides assurances that the volume of purchases associated with goods and services is greater.

A review of Florida Accounting Information Resources (FLAIR) transaction-level payments issued in FY 08-09 indicates that state agencies paid approximately \$3.1 billion for goods and services with an eligible state term contract in place; however, as reported by DMS, in FY 08-09 only \$804 million was spent on these goods and services through an existing state term contract. Consequently, it appears that approximately \$2.3 billion was spent for goods and services that could have employed a state term contract, but did not.

³ Department of Management Services, this figure excludes spending by PRIDE and RESPECT

This determination was made by identifying payments associated with object codes with state term contracts, as provided by DMS (see exhibit below). Object codes with state term contracts were identified through a crosswalk between the commodity codes used to document the type of good and service, and also serve as the definition for the specific goods and/or services when developing a state term contract.

Exhibit: Object Codes with state term contracts as identified through crosswalk:

Object Code	Name	Object Code	Name
132800	TRAINING SERVICES	380000	OFFICE SUPPLIES CONSUMABLE
139900	INDEPENDENT CONTRACTOR-NOT OTHERWISE CLASSIFIED	381000	OFFICE SUPPLIES NON-CONSUMABLE
227000	FREIGHT	391000	INFORMATION TECHNOLOGY SUPPLIES
230000	PRINTING AND REPRODUCTION	393000	APPLICATION SOFTWARE (LICENSES)
242000	REPAIRS AND MAINTENANCE-CONTRACTED SERVICES	399000	OTHER MATERIAL AND SUPPLIES
252500	CARE AND SUBSISTENCE- OTHER VENDOR SERVICES	418000	
310000	BEDDING AND OTHER TEXTILES	434000	RENTAL FROM NON-GOVERNMENT ENTITIES
320000	BUILDING AND CONSTRUCTION MATERIALS	490000	
330000	PURCHASE FOR RESALE	499100	PERQUISITES
341000	EDUCATIONAL	511000	BOOKS AND OTHER LIBRARY RESOURCES
342000	MEDICAL	512000	FURNITURE AND EQUIPMENT
343000	AGRICULTURAL	514000	MEDICAL PROPERTY
350000	FOOD PRODUCTS	516000	INFORMATION TECHNOLOGY EQUIPMENT
361000	JANITORIAL AND HOUSEHOLD	517000	MOTOR VEHICLES-PASSENGER
362000	MINOR TOOLS	518000	MOTOR VEHICLES-OTHER
363000	PARTS AND FITTINGS	519000	OTHER FURNITURE AND EQUIPMENT
364600	ACETYLENE, BUTANE AND OTHER GASES	561000	BUILDING AND FIXED EQUIPMENT
379000	OTHER FLUIDS	561800	BUILDING AND FIXED EQUIPMENT - TRAINING

The difference between the expenditures for goods and services with an executed state term contract (\$3.1 billion) and the value of payments to applicable state term contract vendor (\$804 million) provide a strong indication of non-compliance with state term contracting requirements. This non-compliance may produce inefficiency in the state’s business processes because goods and services purchased without the benefit of a state term contract lose the economies of scale used by state term contracts to achieve the best price. DMS has estimated that the state realizes a 25 percent savings when agencies purchase goods and services through a state term contract; however, it should be noted that agency purchasing managers have cited examples where purchasing outside of the state term contract is actually cheaper for the state, and likewise, examples have been cited where the state term contracts do not offer the newest or most useful versions of important products (such as computers and related equipment). Assuming that only half of the \$2.3 billion in expenditures for which state term contracts were available but were not used, and assuming that using the state term contract saves only 20% (instead of the 25% estimated by DMS), **the state would save approximately \$200 million on the purchase of goods and services if the economies of scale achieved through state term contracts were actually realized.**

Recommendation: The Legislature should require that the DFS Division of Accounting and Auditing conduct compliance monitoring over state agency procurement processes, to include compliance with state term contracting requirements. Currently, more than 30 FTE are assigned to the Bureau of Auditing within the Division. This staff is responsible for conducting “pre-

audits” of approximately 15% of state agency warrant requests. This effort, which consumes approximately \$3 million per year in resources is supposed to help ensure that payments are appropriate. Through the use of continuous monitoring software, DFS could monitor 100% of the warrant requests, while achieving the same level of assurance at an initial cost of approximately \$100,000. Implementation of a continuous monitoring system would also allow for redeployment of most of the existing staff to perform compliance monitoring of state agency procurement processes.

The Legislature should also consider the reduction of state agency funding by a percentage of the identified monetary amount associated with the identified non-compliance. This reduction should not have any impact on the quantity or quality of goods and services purchases, as state agencies should be able to absorb this reduction by fully complying with state law.

3. Improve enforcement of the Preferred Pricing Clause in state contracts and introduce penalties for misrepresentation

Standard contracts with the state include a Preferred Pricing Clause (PPC), [referred to in federal contracts as the Most Favored Customer (MFC) and Price Reductions Clause (PRC) and similar in practice to the Most Favored Nation clause in international trade treaties], which binds vendors to provide the state with the lowest price as is then, or may be thereafter, given to any other purchasing party. This clause ensures that the state will receive the best possible price for goods or services offered by the vendor throughout the life of the contract, regardless of initial contract price. There has been little enforcement of the second part of the PPC (i.e., ensuring that a lower price established by the vendor during the life of the contract is applied to the state contract). In order to maximize state benefit of the PPC, an enforcement mechanism should be implemented and penalties for failure to comply with the PPC should be established.

Based on the \$804 million in state agency purchases made through state-level term contracts in FY 2008-09 and assuming that stricter enforcement of the PPC would reduce state term contract prices by 1%, **the state could save \$8 million annually beginning in FY 2010-11.** If compliance with state term contracts were increased, the savings would increase as well (still assuming only a 1% savings through PPC enforcement).

Recommendation: The state should require a periodic (likely annual) affidavit from an authorized representative of the vendor attesting (under penalty of perjury) to compliance with the PPC (i.e., that the price in the state contract is still the most favorable price being offered) and penalties for misrepresentation and failure to comply should be created.

4. Adjust annual budget appropriations to reduce “fourth quarter dumping”

The common “use it or lose it” budget mindset is a pervasive disincentive to saving money for most governments. Such practice in Florida encourages state agencies to spend all unused funds at the end of the fiscal year or otherwise risk having future budgets reduced. This creates a

phenomenon known as “fourth quarter dumping,” when the end of the fiscal year reveals a spike in spending on agency discretionary funds.

Transaction-level payment data from FLAIR data, as provided by the DFS, shows that “controllable” spending in June was \$159.6 million more than the overall monthly average during FY 2008-09. “Controllable spending” is the discretionary spending of state agencies that is related to their operation.

Considerable savings could be realized if the Legislature accounted for this overage by benchmarking “controllable” expenditures at the end of the fiscal year in June to the yearly average and then allocating funds accordingly. Certainly, not all of the spending is due to the last minute spending of state agencies; some of the “excess” spending in June is likely appropriate and may represent the agencies simply waiting to purchase lower priority items. Still, if only 50 percent of the June overage is attributable to true “fourth quarter dumping,” and future appropriations were reduced by that amount, **\$80 million in savings could be realized.**

Recommendation: The Legislature should adjust the total budget appropriations to account for the practice of overspending in June. The adjustment can be made through an examination of how much over the yearly average in relation to agencies’ total controllable spending occurred in June during the previous fiscal year and subsequently reducing the following fiscal year’s appropriation by a reasonable percentage (such as 50 percent) of that amount.

5. Dispose of unneeded state facilities and land holdings

There are over 13,800 records of properties under state ownership in Florida serving many state purposes including farms, forests, parks, reservations, vacant land, schools, universities, office buildings, and warehouses. Other states have performed full audits of their state’s real estate portfolio to maximize the value of their assets. Iowa estimated that the sale of underutilized and unnecessary real estate would produce \$30 million in revenue for the state in one fiscal year.⁴

Following the recommendation issued by Florida TaxWatch in the January, *Constructive Ideas to Help Florida Address the Budget Shortfall*, significant steps have been made to identify and dispose of surplus properties owned by the state. SB 44A, which passed the 2009 Legislature, mandated that the DMS perform an audit of all state owned and leased properties and identify surplus real estate that could be sold to generate revenue and report its findings and recommendations to the Senate President, Speaker of the House, and Office of the Governor on March 3, 2009. SB 1804, which also passed, expanded upon the beginning steps created by SB 44A and mandated that DMS create and manage a database that would make the tracking of state properties more transparent in the future.

⁴ “Iowa Efficiency Review Report to Governor Chet Culver and Lt. Governor Patty Judge”, Public Works LLC, 2009.

In response, DMS analyzed the state's inventory of state-owned property. The initial analysis identified 69 buildings that were immediately available for disposition (five buildings in the DMS pool of state-owned buildings and 64 other state-owned buildings managed by state agencies).⁵ The combined assessed value of these buildings is approximately \$9.7 million. A follow-up study identified an additional 29 properties with a combined value of \$33.3 million ready for disposition.⁶ Of course, the value of a property does not mean that the state will be able to sell the property for that price, especially given current market dynamics; however, there are significant savings in maintenance and upkeep in addition to the revenue from the sales of the property and/or facility, all of which must be considered in the decision to sell and at what price. **Florida could generate as much as \$43 million in FY 2010-11 through the sale of these properties (assuming no upfront costs) and would achieve immediate and annually recurring cost savings through reduced maintenance and other upkeep fees.**

To fulfill the requirements of SB 1804, DMS is also currently in the process of identifying additional properties for disposal.

Additionally, the state owns excess land that was purchased to accommodate the Department of Transportation's (DOT) right-of-way needs at one time but is not longer needed. In 2003, a House Committee began exploring the idea of evaluating this land to see if some of it could be sold. At the time, even gathering information on all of the land the state owned was difficult.

Although the House Committee did not complete research on this topic, the then-Chairman and staff director of the Committee have reported to Florida TaxWatch that they believe there is potential for significant revenue from selling these lands. An estimate is not available at this time.

Recommendation: The Legislature should continue to provide support and resources to the DMS as necessary to ensure that the identification and disposition of surplus state properties, including DOT excess right-of-way, is expediently accomplished.

6. Restrict use of “stay in place” leasing

In order to achieve the best value for the taxpayers on property leases, Florida law requires agencies to competitively bid contracts for leased space of 5,000 square feet or more; however, s. 255.25 (3)(c), *Florida Statutes*, allows agencies to avoid competitive bidding once the base lease term and any renewal options have been used. This scenario is referred to as a replacement lease action or is more commonly known as a “stay in place” lease action. Restricting the statutory

⁵ Department of Management Services Division of Real Estate Development and Management, “Senate Bill 44A: Interim Report to the Legislature; State of Florida Surplus Real Estate and Private Lease Renegotiation Plan,” March 3, 2009.

⁶ Department of Management Services Division of Real Estate Development and Management, “Senate Bill 44A: Final Report; State of Florida Surplus Real Estate Report,” December 4, 2009.

authorization for “stay in place” leasing would produce significant savings for the state by reducing the cost of leasing space.

Although it is impossible to predict exactly how much that percentage would increase if “stay in place” leases were limited, there would almost certainly be more competitively solicited lease transactions.

Applying the (DMS provided) average value of the current leases by sq. ft. per year of \$19.13, and assuming the given increases in the percentage of new lease transactions that are competitively solicited and the given savings that would be achieved:

Additional Square Footage Procured through Competitive Solicitation ⁷ (i.e., percent of 387,826)	Savings achieved through competitive solicitation (i.e., percentage of \$19.13)			
	5%	10%	15%	25%
5%	\$18,547.79	\$37,095.58	\$55,643.37	\$92,738.95
10%	\$37,095.58	\$74,191.16	\$111,286.74	\$185,477.90
50%	\$185,477.90	\$370,955.81	\$556,433.71	\$927,389.52
90%	\$333,860.23	\$667,720.45	\$1,001,580.68	\$1,669,301.14

Based on these figures, the state would realize savings of up to \$1.2 million annually beginning in FY 2010-11 by restricting the use of competitive leasing; however, it is important to note that upfront moving costs and potential added workforce were not considered in the calculations.

Recommendation: The Legislature should amend s. 255.25(3)(c), *Florida Statutes*, to prohibit the use of “stay in place” leasing actions of longer than 11 months after the original lease termination date, except in extraordinary cases where approved by the DMS, subject to criteria promulgated by DMS; the Legislature should direct DMS to create such criteria.

7. Maximize use of leased space

State agencies would achieve greater cost savings by reducing their space utilization. Reassessing and updating space standards where feasible would ensure more efficient use of square footage per employee. Previous studies have suggested that space utilization standards should be around 180 sq/ft per full-time equivalent position (FTE). In 2009, state agencies expended \$142.8 million for leases on nearly 8 million square feet of space in 894 properties. These leases were primarily used to house 3,000 FTEs.

⁷ Based on information provided by DMS, 1,551,305 square feet of leases exceeding 5,000 sq. ft. will expire in the next 24 months (as of March 2010). Assuming half of the leases expire each of the next two years, and assuming that half of the leases that expire each year will need new solicitations (including those that will still qualify for “stay in place” leasing), there will be 387,826 sq. ft of leases that will be available for competitive bidding next year.

The DMS has estimated that there are 350 leases for 2.3 million square feet of space that will expire within the next two years. Based on the state's space use target of 180 square feet per FTE and DMS analysis of all leased space, the amount of spare footage can be reduced by 460,000 square feet when these leases are renewed. Based on an average per square foot cost of \$18.58, **complying with current space utilization standards would result in an estimated savings of approximately \$4.1 million annually.**

Recommendation: The Legislature should reduce appropriations for facility leasing by \$4.1 million for FY 2010-11 for agencies exceeding the space utilization standards to ensure compliance with the standards. The Legislature should also review the standards to determine further opportunities to reduce/maximize square footage and reduce the number of exceptions.

8. Consolidate management of small state vehicle fleets

Florida's Division of Fleet Management (DFM), a branch of the DMS, oversees and sets the basic standards for the acquisition, maintenance, and replacement of state vehicles.⁸ Each state agency is then responsible for managing their respective fleets and referring to DFM when needed. In agencies with small fleets, vehicle management is typically performed by individuals who have other responsibilities and may lack pertinent training. Pooling smaller fleets composed of similar vehicles under a single, knowledgeable managing entity, and allowing vehicles to be shared between agencies, would promote more efficient allocation and reduce unnecessary costs. The management of these pooled fleets could be performed by the state (possibly by agencies with larger fleets and professional fleet managers) or through an outsourced contract with a private company. A study conducted by the state of Iowa found significant savings when large state agencies provided budget, accounting, and pre-audit support free of charge to smaller state agencies which only had a minimal effect on the staff's workload.⁹ Additional fuel efficiency savings could be achieved through management of vehicle location and placement of newer and/or more fuel efficient vehicles in the areas with the largest travel routes.

Industry experts estimate that fuel and maintenance costs of small fleets could be reduced significantly within two years if management of these fleets were consolidated and/or outsourced.

There are currently 4,136 vehicles that are part of state fleets with fewer than 500 vehicles; the total combined fuel and maintenance costs for these fleets is approximately \$12.5 million annually. **If at least half of these vehicles were outsourced and the fuel and maintenance**

⁸ In FY2008-09 the state spent \$13.3 million on the acquisition of 648 new vehicles.⁸ A significant portion of this acquisition cost could be averted if certain vehicles were rented instead of bought. Further, maintenance and fuels costs could be reduced significantly through the rental of vehicles. In FY2008-09, the state paid approximately \$18.3 million on fuel and \$11 million on maintenance.

⁹ "Iowa Efficiency Review Report to Governor Chet Culver and Lt. Governor Patty Judge", Public Works LLC, 2009.

costs decreased by just 10 percent over the two-year period, then the state would realize a \$625,000 savings over two years. If a 50 percent decline in fuel and maintenance costs were achieved for half of the vehicles in the small fleets, then the savings would be approximately \$3.1 million over two years. As the number of state-owned vehicles managed in fleets with fewer than 500 vehicles is reduced to zero, annual savings could more than double.

Recommendation: The Legislature should require that a contract for a private vendor or agencies with larger fleets be competitively bid to provide and maintain the vehicles of eligible agencies with fleets of 500 vehicles or fewer.

9. Owner controlled insurance program for construction projects

Currently, for many construction projects, each project-related party is required to provide workers' compensation and general liability coverage. Use of an Owner Controlled Insurance Program (OCIP) where the owner elects to purchase workers' compensation and general liability coverage for all project-related parties can save between 1-2.5% in construction project costs. In FY 2008-09, construction costs were \$628,116,706 (excluding building and construction materials); **if the state saved only 1 percent of the total cost by using OCIP, the savings would be approximately \$6.28 million annually.**

Recommendation: The Legislature should explore using OCIP where possible.

10. Renegotiate non-client-service contracts

In slow economic times, competition is heightened and purchasers can demand lower rates from service providers on contracts negotiated earlier. Contract renegotiation should be explored in every avenue of government contracted services. Potential rate reductions of 5% are not an unreasonable expectation given the current climate. It is important, however, to avoid cuts to services that directly affect the most vulnerable citizens, consumers, and the taxpayers of Florida. The renegotiation efforts should be primarily concentrated on those contracts that are for internal or administrative purposes only as opposed to client service contracts.¹⁰

Based on the contracted services data for a sample of Florida agencies, **renegotiating contracts would potentially reduce costs by at least \$215 million** based on only a 5 percent reduction in contract price. The total savings for all state agencies would be much larger and the potential for savings to local governments also exists.

Recommendation: The legislature should direct agencies to renegotiate non-client-service contracts and reduce appropriations accordingly.

¹⁰ Client-service contracts are those agreements where the government has outsourced the performance of a direct benefit to the citizens. Examples include health care services and the Community-Based Care system for children services. Non-client services a vendor contracts for goods, such as office supplies, and services, such as printing of materials and janitorial services.

11. Implement a temporary statewide moratorium on purchase of office supplies

The state government spends tens of millions of dollars each year purchasing non-mission critical office supplies – such as paperclips, notebooks, and pens. While these supplies are necessary for any office, governmental or private, during these difficult fiscal times when cuts are necessary, it is important for agencies to ensure that they are purchasing only the exact number needed and only the most necessary items. Recent efforts by Florida Chief Financial Officer Alex Sink and DFS to cut gratuitous spending on office supplies estimated that the state would save more than \$14 million a year if a moratorium was implemented through state government; therefore, **the state would save more than \$1 million for every month of a temporary moratorium.**

Recommendation: The Legislature should mandate a temporary statewide moratorium on the purchase of office supplies and related materials and reduce appropriations for such items by an amount to reflect the moratorium.

12. Expand use of Department of Correction land for agriculture and other productive purposes

The Department of Corrections (DOC) currently sets aside land for agriculture on which “low-risk” inmates produce crops for self-sustenance. Expanding the use of corrections land for agriculture or other revenue-generating endeavors (especially renewable energy purposes like solar energy production) could reduce the cost of prison upkeep (by producing food or needed items) and/or generate revenue to off-set the cost to the taxpayers of maintaining prisoners.

Recommendation: The legislature should direct the Office of Program Policy Analysis and Government Accountability (OPPAGA) to identify any idle or underutilized DOC land and determine whether any portion of it could be: turned to agriculture and/or used in the production of renewable energy.

Government Cost Savings Task Force

Chapter 2 – Operational Efficiency Recommendations

13. Increase use of electronic payment disbursements
14. Increase use of electronic payment receipts
15. Implement an automatic computer shutoff system
16. Create an eLearning-based Centralized Learning Academy for state employee training
17. Implement a statewide integrated time and scheduling system
18. Consolidate call centers
19. Maximize use of network printers
20. Reduce printing and mailing costs
21. Benchmark operating expenses for each state agency
22. Reduce Florida Retirement System (FRS) employer contribution rate by requiring employee contribution for new hires
23. Change 3% automatic COLA increase for pension recipients – instead tie it to inflation with a 3% ceiling
24. Increase vesting period from six years to 10 years for FRS members
25. Reevaluate who is considered “special risk” for pension benefits
26. Reduce the retirement credit for SMS employees from 2% to 1.6% and for Special Risk from 3% to 2%
27. Transition to four-day workweek
28. Expand telecommuting program
29. Expand use of teleconferencing to reduce state travel expenses
30. Implement a 401(a) FICA Alternative plan
31. Implement a 401(a) Special Pay plan
32. Standardize or eliminate annual leave accrual
33. Eliminate sick leave accrual
34. Standardize payroll cycles
35. Increase state employee parking fees to make the state-owned parking system self-sufficient
36. Require reimbursement of training costs for certified law enforcement/corrections officers that terminate employment with the state and go to work for local government prior to completing two years of service
37. Encourage and reward innovation and cost savings in state agencies

Introduction

One promising way to help make ends meet in the face of a projected budget shortfall is to fully tap the power of available technology as a means of reducing costs without compromising the quality of services provided to Floridians. During these difficult fiscal times, finding better ways to conduct the day-to-day operations of state agencies could mean a world of difference for taxpayers.

Implementing some of the same innovative changes to input processes that have been successful done in other states and following the examples of the business community will reduce costs and improve the efficiency of carrying out important government tasks in Florida.

The state currently has multiple processes across state agencies to perform the same function. Standardizing and/or consolidating these processes to achieve best practices can also result in cost savings.

The following recommendations combine proven-successful private market practices and measures undertaken by other states, with advances in technology to ensure greater efficiency in state government, now and in the future. Reducing state overhead is the best way to cut the budget without negatively affecting core services.

13. Increase use of electronic payment disbursements

Disbursing payments via paper checks is more expensive than using electronic payment disbursements. Increasing the use of electronic payments saves moneys by eliminating costs for check printing, check stock, and postage.

The state disburses payments for a variety of reasons, including payroll and retirement benefits to employees and retirees, unemployment compensation payments, child support payments collected on behalf of custodial parents, and payments to vendors for goods and services purchased by state agencies. A number of these payments are already being made electronically; however, the use of electronic payments could be increased.¹¹

The traditional form electronic payments used by the state has been electronic transfers, often known as direct deposits; however, this option is not always available for all payment recipients, especially individuals (as opposed to vendors) who may not have checking accounts or ready access to traditional banking institutions. The rise in prominence of the debit card provides an alternative form of electronic payment that can serve this population 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 the EPC, direct deposits can be made to the EPC account at almost no cost to the state.

¹¹ The exact percentage of electronic payments compared to paper checks was not determinable with the information available.

Florida already has a near-universal electronic payment program in place for Child Support Enforcement (CSE) payments through the Department of Revenue (DOR). Current law requires that outbound child support enforcement payments be made either by direct deposit or electronic payment card, except for exceptional cases. Electronic payments through EPCs have been implemented for a variety of payments in numerous states and at the Federal level.

Unemployment Insurance: More than 20 states currently operate an outbound electronic payment program, including Alabama, Alaska, Arkansas, Colorado, Connecticut, Idaho, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nevada, North Carolina, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Texas, and Virginia.

Child Support Enforcement: In addition to Florida, most states disburse child support payments through electronic payments, including: Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Virginia, Washington, West Virginia, Wisconsin, and Wyoming.

Payroll and retirement benefits: While Florida currently uses direct deposit when that option is available, several states also disburse payroll and retirement benefits via an electronic payment card when direct deposit is not available, including Virginia, Indiana, and Georgia. Requiring all payroll and retirement benefits to be distributed through electronic payments (by incorporating EPCs) would produce significant savings.

Supplemental Social Security Income (SSI) and Supplemental Social Security Assistance (SSA): Benefits are currently being disbursed via electronic payment card by the US Treasury.

Assuming a \$2.00 per check savings using electronic payment disbursements, the estimated savings for Florida are shown in the following table by major program area.

Table: Estimated savings by increasing the use of electronic payments compared to paper checks, FY 2010-11

Program	Payments per Month	Cases / Volume per Month	Monthly Savings	Annual Savings
TANF	1	52,000 ¹	\$104,000	\$1,248,000
Unemployment Insurance	2	800,000 ²	\$1,600,000	\$19,200,000
Foster Care	2	30,000 ¹	\$60,000	\$720,000
Pensions	2	50,000 ¹	\$100,000	\$1,200,000
Payroll	2	30,000 ¹	\$60,000	\$720,000
Total				\$23,088,000

1 Based on population-adjusted estimates for Florida extrapolated from national averages.

2 Currently 50% of 800,000 UI claimants receive paper checks twice per month [(400,000 paper checks x 2) = 800,000 check per month]. Assumes paper checks are no longer allowed and that all UI payments be made by direct deposit or debit card.

Recommendation: The Legislature should mandate electronic payments for all state payments, except in extraordinary cases, through direct deposit or EPCs.

14. Increase use of electronic payment receipts

Processing electronic payments to the state is significantly more cost effective than processing paper checks. To process a check received via mail costs state agencies over \$4; to process a payment received electronically is less than \$1, therefore the per unit savings associated with processing payment receipts electronically is approximately \$3.¹² Requiring electronic payments would reduce processing costs and therefore produce considerable cost savings for the state.

In addition, electronic payments generate more interest from deposits than payments received via paper check because electronic payments are deposited by the state within one business day, whereas the time to deposit for paper checks often exceeds 5 days.

Analysis of payment receipts provided by DFS shows that state agencies other than DOR received 1.46 million payments (i.e., transactions) in FY 2008-09. Assuming that 40% of these payment receipts were submitted via paper, there are approximately 584,000 paper payment transactions received each year by agencies other than DOR.¹³ **If half of these paper payments were converted to electronic payments, the state would save nearly \$1 million annually, assuming a \$3 reduction in processing cost per transaction.¹⁴ If 90 percent of paper payments were electronically processed, the state would save \$1.5 million annually.** If the additional interest, which would result from reduction in payment processing time, were to be considered, the savings would be even greater. The implementation of a small fee to process paper payments would also enhance cost-savings to the state and deter the use of paper payments as well.

Recommendation: The legislature should direct that all payments made to the state must be made electronically, where feasible, and those payment receipts that continue to be received via paper check should be assessed a monetary charge to reflect the increased processing costs, as authorized in s. 215.322(3)(c), *Florida Statutes*.

15. Implement an automatic computer shutoff system

Reducing personal computer (PC) energy consumption across agencies through power management could produce immediate and long-term savings for the state. Any organization that uses a large number of individual computers runs the risk of energy waste when individuals choose to turn off a machine's power-conserving settings or leave their computers running

¹² Estimate based on: Florida Department of Financial Services Office of Inspector General, "Payment Receipts Safeguards Can Be Improved While Achieving Significant Cost Savings," March 13, 2009 (Audit Number 09004), available at www.myfloridacfo.com/OIG/images/CashReceiptsAudit.pdf.

¹³ *Ibid.*

¹⁴ \$876,000 based on FY 2008-09 data

unnecessarily during off-hours. Implementing an automatic computer shutoff program would enable IT administrators to centrally manage and continuously enforce power management policies on all state-owned PCs without sacrificing manageability, usability, and security.

Power management solutions have been implemented in numerous states by outsourced contractors who can program automatic computer shut off throughout the entire network for a low cost. Examples include Miami-Dade County Public Schools, which also used the same idea to manage their air conditioning systems. IT administrators may be able to set up automatic shutoff in-house, either network wide or on individual computers.

Power management through automatic computer shutoff can provide a quick return on investment by reducing a single desktop computer's power consumption by as much as 60 percent, potentially saving \$25 per computer per year by reducing energy costs.¹⁵ **Based on the \$25 annual savings per computer, the estimated savings for Florida would be more than \$3.1 million annually.**¹⁶

Recommendation: The Legislature should direct the DMS to implement a power management through automatic computer shutoff program on or before July 1, 2010, either through an outsourced contract or internally.

16. Create an eLearning-based Centralized Learning Academy for state employee training

Currently state employee training is decentralized and each agency is responsible for providing technical and non-technical training to its own employees; however, many – if not most – training courses, especially the non-technical courses, are generic and could be offered to employees from any agency throughout state government. For these generic training courses, agencies individually develop or outsource training services under the current system, which results in waste and inefficient use of taxpayers' money.

Creating a “Centralized Learning Academy” using “eLearning” technologies will reduce training costs. Online eLearning can cut overall training costs by reducing employees' time away from work during training, the overhead associated with maintaining multiple education departments, and the costs of producing physical materials. For instructor-led training (ILT), the savings also includes program materials, meals/refreshments, facilities, cost of coordination, cost of job coverage during training, overhead of instructors, and any other cost incurred in providing traditional training. Furthermore, there are additional savings associated with the economies of scale by serving more state employees from multiple agencies simultaneously.

¹⁵ “*Big Fix Power Management Lowers Power Bills and Shrinks Carbon Footprint*”, Miami Dade County Schools, 2007. http://www.energystar.gov/ia/products/power_mgt/MDCPS_Power_Mgt.pdf.

¹⁶ Savings estimate based on 125,000 state owned computers.

Studies that compare traditional classroom instruction to equivalent computer-based training instruction at Xerox, IBM, and Federal Express have shown that training time for the typical worker can be reduced by 40 percent through use of eLearning.¹⁷

Even though the state training budget has been reduced from \$50.1 million in FY 2003-2004 to \$37.4 in FY 2007-2008,¹⁸ **there is likely still a potential 10 to 20 percent savings if training services are centralized using eLearning technology, which would produce \$3.7 – \$7.4 million in cost avoidance annually beginning in FY 2010-11**, not considering any potential upfront costs.¹⁹

Recommendation: To help eliminate duplication in employee training and expand services with existing resources, the Legislature should direct the DMS, through a new training office, to coordinate state training functions. The training center should work with higher education institutions to develop appropriate learning strategies and programs for state employees. The central training office should design uniform training curricula for issues that affect all agencies. The training office should offer customized training, ILT, online learning, and employee certificate programs to all state employees, and agencies should be required to participate in existing programs rather than developing and offering courses in-house whenever the central courses can reasonably meet the agency’s need.

17. Implement a statewide integrated time and scheduling system

Implementing a web-based, statewide, integrated time and scheduling system will increase payroll budgetary controls through uniform application of scheduled and non-scheduled overtime pay. In some agencies, an improved scheduling process is needed to both control the payroll function and to schedule appropriately in order to avoid overtime, which can be very expensive for the taxpayers. According to industry experts, in most instances overtime can be reduced by at least 2-3 percent through the implementation of an advanced, integrated scheduling system.

Additionally, implementing an integrated system will reduce costly payroll errors. Manual time card error rate usually runs at .005 percent, which can cost the state hundreds of thousands of dollars per month. According to the American Payroll Association (APA), automated scheduling systems alone are able to reduce overtime in any organization by an average of 2-3 percent (Note: This statistic is based on average U.S. corporate employee mix, which typically has a much higher percentage of exempt status employees.) In FY 2008-09, Florida state agencies

¹⁷ “E-Learning Benefits and ROI Comparison of E-Learning vs. Traditional Training”, David Boggs, CEO, SyberWorks, Inc [Internet]. Version 5. Knol. 2008 Dec 23. Available at: <http://knol.google.com/k/mary-kay-lofurno/e-learning-benefits-and-roi-comparison/nti9bs9a4lx/16>.

¹⁸ “State Personnel System Annual Workforce Report 2007-2008,” Florida Department of Management Services.

¹⁹ For the further information about eLearning and an example of the potential savings, see: “Return-on-Investment (ROI) from eLearning, CBT and WBT,” *Ron Kurtus’ School for Champions* website, revised October 2002; www.school-for-champions.com/elearning/roi.htm, accessed on January 28, 2010.

paid \$22.9 million in overtime to 16,329 employees. Therefore, if Florida were able to realize even a 1 percent reduction in overtime expenditures, **the state would save approximately \$2.3 million in FY 2010-11 and every year thereafter** (not including implementation costs).

Recommendation: The Legislature should direct the creation, either in-house or through contract, of an improved statewide payroll system that increases the state's payroll budgetary controls through uniform application of scheduled and non-scheduled overtime pay.

18. Consolidate call centers

Consolidating call centers can reduce costs while improving service. Consolidated call centers can reduce redundant calls to multiple numbers, call center transfer costs, and staff hours spent handling routine requests, all of which help lower costs. A central facility allows for cross training of customer service representatives for routine customer assistance thereby reducing total staff requirements while providing surge capacity when a program within the call center experiences unusual demand.

According to OPPAGA's analysis, 21 state agencies spend \$149 million annually to operate 49 call centers in FY 2008-09. At least 11 of these agencies operate multiple centers (which focus on different subjects or provide different types of services based on the different functions of the agency) and nine centers operate multiple locations (i.e., the same call center function operates out of multiple physical locations). These state agencies' 49 contact centers utilize 2,882 FTE.²⁰

Call center consolidation is becoming more common in the public sector, including department-wide consolidations at the state level and county- or city-wide consolidations such as 311 services. Although 39 state agencies have made efforts to consolidate these centers, the Legislature should consider further opportunities to achieve efficiencies and cost-savings.

Maximum benefits are achieved when centers that have similar functions are consolidated according to studies of contact center consolidation in New York City and Georgia which include server and data center sharing as well as physical location consolidation of specialty services.²¹ Examples of efficient, effective consolidations include the State of Louisiana's human services call center, and a similar call center for human services in Denver, Colorado.²²

Microsoft conducted data center and server consolidation within its company in 2004 and found a 40 percent reduction in spending when the numbers of sites were reduced by 54 percent and servers were reduced by 27 percent through consolidation.

²⁰ OPPAGA, "Several Option Exist for Streamlining State Agency Contact Centers", Report No.09-43, Dec. 2009, p.1,5 available at: www.oppaga.state.fl.us/MonitorDocs/Reports/pdf/0943rpt.pdf

²¹ New York City consolidated all of its 55 call centers into 2 in 2009 and expects \$300 million in cost savings. http://www.govtech.com/gt/731589?id=731589&full=1&story_pg=2

²² See Reference 20.

Assuming a 1 percent spending reduction due to appropriate consolidation of call centers, the state would save approximately \$1.5 million annually. While upfront implementation costs would reduce the savings in the first year, the realization of higher savings would help offset the costs even in the first year, and outsourcing arrangements are available that would defer the upfront costs over the life of the contract, thereby creating a cost avoidance in the first year. Additionally, enhanced long term cost savings for the state will be achieved due to a reduction of management, facility, implementation, and equipment costs. Other cost savings may result from streamlined operations that save time and money due to reduced training and overall duplication.²³

Consolidations could be achieved by either designating a single state agency to handle all inquiries or by contracting with a private entity to perform this function for all state agencies. While there may be up-front costs incurred in the initial consolidation, these costs are expected to offset by the decreased cost of rent due to the reduced the number of sites and other factors, such as staff attrition.²⁴

Recommendation: The Legislature should direct the DMS to perform a business case analysis to determine the resource requirements associated with consolidation of call centers either internally by assigning to a single agency or through outsourcing the function to a private entity.

Furthermore, the Legislature and state agencies should consider the options of instructing agencies with multiple contact centers to consolidate all of their call centers into a single facility per agency; consolidate contact center locations that have similar functions; co-locating sites of contact centers which use multiple locations; and consolidate all contact center information technology throughout the state. It is imperative that the consolidated centers have accompanying websites with support information and duplicate content that is provided by call centers to reduce routine calls and provide easier access to information.

Option 1: Consolidate all state agency contact centers into a single center with centralized information technology and services.

Option 2: Consolidate contact center locations with similar functions and consolidate all contact center information technology statewide.

Option 3: Consolidate all of a particular state entity's call centers into a single call center to centralize operations and consolidate information technology within that department.²⁵

²³ Mitchell, Ike. "Call Center Consolidation", Computer Sciences Corporation, 2001.
http://www.usaservices.gov/pdf_docs/843_1.pdf

²⁴ Florida Department of Financial Services consolidated 10 call centers into two within the department and realized cost savings after covering their initial costs of consolidation in 2008.

²⁵ As of 2009, there were nine state entities that had call centers at multiple locations.

19. Maximize use of network printers

The DFS recently completed an assessment of the Division of Administration's printer, fax, and scanner fleet and realized an annual cost savings of \$23,965.92 through the reduction of leased copiers and downsizing of copier types where suitable. This figure represents a 30% reduction in annual lease expenditures for copier/printers in the division.

As a result of the savings associated with this initial evaluation, DFS has decided to expand the pilot project to the entire department. **A 10 percent reduction in annual lease expenditures for copiers/printers across all budget entities would produce \$1.5 million in annual savings.**

Additionally, many state employees are currently permitted to use personal office printers; however, printing through a network printer is considerably cheaper and more cost savings could be realized if more employees were required to use network printers instead of personal printers.

Recommendation: Legislature should mandate that all agencies undertake cost-benefit assessments of their printer, fax, and scanner fleets and perform the appropriate actions upon identifying potential cost-savings measures. Legislature should also mandate through statute that all agencies restrict the availability of personal printers and access be limited only to a network printer except in special circumstances (where a statutory exception is made or where documented, adequate justification exists).

20. Reduce printing and mailing costs

Most state governments operate a wide range of inbound and outbound mail operations as well as a separate high volume print facility. The business of government often appears to be driven by paper. Over time, states have attempted to reduce the flood of paper through the use of online services and user-friendly websites. There still remains a lot of paper and the delays caused by moving that paper through the agency. The end-to-end management of digital and paper business processes has the potential to reduce the state's financial commitment to investing in technology and bring operational efficiencies to deliver substantial cost savings.

Inbound Mail

- Consolidate/upgrade operations to save equipment and manpower costs
- Scan mail and use work flow software to move the images to the proper work station
- Use bar code mailings to facilitate return document processing

Outbound Mail

- Reduce the frequency of mailings or combine mailings
- Reduce the weight of mail by changing the size of the envelope or its contents
- Increase postal rate discounts by adding zip+4, delivery point automation, and address correction
- Redesign documents to facilitate processing
- Automate return mail processing
- Convert to digital communication, email, for outbound

Consolidated Print Facility

- Consolidate/upgrade operations to save equipment and manpower costs

The consolidation and/or outsourcing of the inbound and outbound mailrooms, as well as the print facility, has the potential to generate substantial savings from postage costs, eliminated/combined mailings, upgraded hardware efficiencies and manpower reductions. The use of imaging and work flow software can eliminate the movement of documents through the agency while lowering the overall processing time by reducing the number of touch points in the process. Also, industry experts report that postage savings of 10% to 15% are standard. In FY 2008-09, the state spent \$47 million on postage, so a 10-15% percent savings on postage **would generate \$4.7 million to \$7 million in FY 2010-11** (assuming no upfront or implementation costs because outsourcing can eliminate the need for a capital outlay by having the vendor spread the costs over the contract duration) **and annually thereafter..**

Recommendation: The state should explore the consolidation and/or outsourcing of the inbound and outbound mailrooms and printing facilities to generate substantial savings from postage costs, eliminated/combined mailings, upgraded hardware efficiencies and manpower reductions.

21. Benchmark operating expenses for each state agency

Creating a benchmark against which to compare expenditures over time illuminates where discretionary operating expenses have grown more than would be expected due to normal inflation and increased workforce.

In the state's accounting system – the FLAIR maintained and managed by the DFS – object codes identify the nature of goods and services purchases by agencies or agency subdivisions, known as budget entities (which are essentially business units within agencies).²⁶ This analysis focused on object codes that represent goods and services for which process owners (i.e., budget entity decision makers) have procurement selection authority, and which directly contribute to the services provided by the budget entity.

A benchmark was created by determining the total payment amounts for all of the selected object codes for each budget entity, and for each fiscal year starting with FY 2005-06 payments. Using FY 2005-06 payment data as a baseline, inflation and changes in the number of employees working in each budget entity were controlled to establish the benchmark amount for every budget entity's 2008-09 expenditures.

The Urban Consumer Price Index (CPI) was used to adjust for price inflation between 2005 and 2009. Changes in the number of employees were accounted for by observing the changes in

²⁶ According to the Florida Department of Financial Services: "Expenditure object codes are used to identify the type of services, materials, or other charges for which funds are expended using the State's accounting system - Florida Accounting Information Resource (FLAIR). Six digits are defined for the code..."

authorized Full Time Equivalents (FTE) during the period of review, as identified in the associated appropriations bill. The below exhibit depicts this methodology:

$$\left(\frac{\text{Base year Expenditures} * \text{Inflation rate}}{\text{Base year FTEs}} \right) * \text{FY 2008-09 FTEs} = \text{FY 2008-09 Benchmark}$$

The purpose of the analysis is to identify budget entities with increases in expenses that exceeded their benchmark amounts, and therefore are higher than would be expected if real expenses (i.e., expenses accounting for inflation) had remained consistent at FY 2005-06 levels per employee.

Approximately 26% of the budget entities had operational expenditures above their benchmark. The difference between the actual and benchmark values of purchases of ‘operational’ goods and services for all these budget entities totaled \$1.377 billion (this amount represents differences for those budget entities where the FY 2008-09 actual amounts exceeded the FY 2008-09 benchmark amount).

While the increases in these expenditures may be for valuable and important functions and services, and some are uncontrollable changes such as the ebb and flow of federal money to the state or to a rise in entitlement-related expenditures, these budget entities and the object codes that drove their billion dollar increases (compared to the benchmark) may be fruitful places to explore targeted budget cuts.²⁷ For all of these government expenses, Florida was able to survive and thrive in FY 2005-06 by spending **\$1.3 billion less on these functions in real per employee spending. Reinvesting just 10 percent of the increase directed to these budget entities in just four years (FY 2005-06 – FY 2008-09)** would mean an extra \$137.7 million for other functions.

Recommendation: The Legislature should utilize benchmarking as tool to conduct further analysis on where budget cuts may be most palatable. For those budget entities where actual FY 08-09 expenditures exceeded the calculated benchmark, appropriated amounts should be closely scrutinized for potential reductions.

22. Reduce Florida Retirement System (FRS) employer contribution for new hires

In FY 2007-08, contributions to the FRS pension fund by state and local governments totaled nearly \$3.2 billion with \$672 million from the state and \$2.52 billion from local governments, which ranges from 9.99% - 22.54% of the annual salaries of FRS participants depending on employee class. These contributions represent the estimated cost to fund projected benefits of employees hired during the current year. Currently, the FRS does not require any matching contributions by employees.

²⁷ Florida TaxWatch contacted selected agencies for explanations concerning some of the large spending increases. In some cases large increases in state spending were attributed to shifts in funding from Federal to state sources and scale of services. For instance, the Agency for Workforce Innovation’s Agency Support Services credited a \$7 million increase in postage with a moratorium on Federal funding as of October 1, 2007 and an increase in the mailing of unemployment checks due to a poor economy. Other agencies attributed the increases to a change in scope of operations.

Modifying the FRS pension fund to require newly hired employees contribute to their defined benefit or defined contribution plans would dramatically reduce state and local government contribution requirements.

Most other state sponsored defined benefit programs require an employee match, with the average amount being 5% of the employee's average salary.²⁸ If all new employees were required to make a match on the state's contribution to their retirement fund equivalent of 5% percent of their annual salary, significant savings could be realized by the state.

Based on annual salaries of FRS defined benefit employees, as of June 30, 2008, total contributions for FY 2007-08 were \$3,289,467,438 with an overall contribution rate of 13.74%.²⁹ A 5% new employee contribution would result in a reduction to employer contributions of nearly \$1.2 billion, of which \$245 million would be realized by the state and the remaining \$952 million by local governments.

New employees selecting the defined contribution plan should also be required to remit 5% of their salary as a condition of membership. Assuming the employee composition in the defined contribution plan mirrors that of the defined benefit plan, additional savings of \$50 million would be realized of which \$10 million would be attributable to the state and the remaining \$40 million to local governments. For both plans, employee contributions should be reimbursed upon termination if the employee does not meet the associated vesting requirements.

Combining the \$245 million in FRS contribution savings from the defined benefit plan with the \$10 million from the defined contribution plan, **the total annual savings to the state beginning in FY 2010-11 are estimated to be \$255 million.** Total annual savings to local governments are estimated to be \$992 million.

Using 2009 figures, the Florida Senate Committee on Government Oversight and Accountability estimated a \$316 million savings for every percent of participants' salaries shifted towards contribution into the FRS pension fund (\$1.58 billion for 5 percent). This number, however, was not broken down to show the share of savings incurred between state and local government.

Recommendation: Amend Chapter 121, Florida Statutes to require employees hired after July 1, 2010, to contribute 5% of their salary as a condition of participation in the FRS.

²⁸ Based on the results of a Public Funds Survey of 102 public retirement systems that administer pension and other benefits for 12.8 million active public employees and 5.9 million retirees and other annuitants, and that hold more than \$2.1 trillion in trust for these participants and represent more than 85% of the nation's total public retirement system community. The survey is sponsored by the National Association of State Retirement Administrators and the National Council on Teacher Retirement.

²⁹ FRS annual Report, p. 10.

23. Tie automatic COLA increase for public pension recipients to inflation with a 3 percent ceiling

In 1980, the automatic increase in the annual Cost of Living Allowance (COLA) provided to all beneficiaries in the FRS was limited to 3% of current benefits, but not more than annual increase in the Consumer Price Index (CPI). In 1987, the COLA was established at 3% regardless of the CPI.

Unlike Florida, most public pension plans tie post-retirement increases in pension benefits to CPI.³⁰ Likewise, Federal Social Security is based on CPI-W - Urban Wage Earners and Clerical Workers. For the period August 2008 - August 2009, the national CPI was -1.9% and the CPI-W for Miami-Ft. Lauderdale was -2.5%. Capping the automatic annual COLA increase to the lesser of CPI or 3% would produce significant long-term savings while bringing Florida into line with other state pension plans and public benefits. The purpose of COLAs is to keep pace with inflation, not exceed it.

As of June 30, 2008, there were 276,252 annuitants receiving benefits payments. The average pension benefit in FY 2007-08 was \$16,248.³¹ **Modifying the pension benefit COLA formula to the methodology used prior to 1987 would reduce the amount of benefits paid to retirees by state and local governments by \$135 million in FY 2010-11 and would improve the pension plans' actuarial valuation by reducing the calculated present value of future benefits, which would save the state significantly because a reduction in the present value of future benefits calculations would allow state and local governments to reduce future contributions to the pension plan.** However, it may not be possible to modify the COLA formula for current annuitants because of contract laws, which would reduce the immediate savings estimation. Similarly, it might not be possible to modify the formula for state employees whose retirement benefits have already vested, which would have less effect on immediate savings. On the other hand, it is possible to modify the formula for employees whose benefits have not yet vested, and certainly possible to modify it for new employees not yet hired, which will have some effect on the actuarial valuation of the immediate contribution and will ensure that future generations of Floridians are facing the same difficult times with impossible choices.

Recommendation: The Legislature should seek an expert legal opinion on the possibility of modifying Chapter 121, *Florida Statutes*, to limit automatic annual COLA formula to the lower of 3% or CPI, and should modify the law according to the opinion.

³⁰ Based on the results of a Public Funds Survey of 102 public retirement systems that administer pension and other benefits for 12.8 million active public employees and 5.9 million retirees and other annuitants, and that hold more than \$2.1 trillion in trust for these participants and represent more than 85% of the nation's total public retirement system community. The survey is sponsored by the National Association of State Retirement Administrators and the National Council on Teacher Retirement.

³¹ Division of Retirement, "Summary of Facts for Fiscal year 2007-2008," *Florida Department of Management Services*. Available at: www.rol.frs.state.fl.us/forms/fact_sheet.pdf

24. Increase vesting period for FRS Pension Plan from six to 10 years

Since July 1, 2001, employees participating in the FRS Pension Plan (a.k.a. Defined Benefit plan) retirement plan may become vested owners of the contribution made by their employers into their FRS retirement fund after six years of credited service. As of June 30, 2008 there were 476,031 vested FRS members (nearly 70% of total employees with FRS membership) entitled to benefits upon termination.³² If the vesting period was increased from six to 10 years, significant savings could be realized by the state of Florida.

Many other states, such as Georgia³³ and Alabama,³⁴ have 10-year vesting periods, thus increasing this period to 10 years would not be out of line with already existing policies in neighboring states.

In FY 2008-09, approximately 5,322 vested employees were terminated from state employment alone. Of these terminated employees, approximately 1,315 employees would not have been eligible to keep their FRS retirement benefits had the vesting period been at least 10 years. **Assuming these figures are applicable for FY 2010-11 and beyond, the state would save an estimated \$16 million annually.**

Recommendation: The Legislature should amend current statutes to increase the length of the vesting period for current members of the FRS Pension Plan from six to 10 years.

25. Reevaluate who is considered "special risk" for pension benefits

Florida law recognizes a special category of employees, known as “special risk” employees, who are entitled to accelerated benefits within the FRS due to the extraordinary demands of the services they perform on behalf of the state. Specifically, s. 121.0515, *Florida Statutes*, states that “the legislative intent of establishment of a special risk class is to limit membership to employees where one of the essential functions of their positions to perform work is physically demanding or arduous, or work that requires extraordinary agility and mental acuity, and that such persons, because of diminishing physical and mental faculties, may find that they are not able, without risk to the health and safety of themselves, the public, or their coworkers, to continue performing such duties and thus enjoy the full career and retirement benefits enjoyed by persons employed in other positions and that, if they find it necessary, due to the physical and mental limitations of their age, to retire at an earlier age and usually with less service, they will suffer an economic deprivation there from.”

The statute makes clear that the accelerated benefits afforded to special risk employees are associated with the corresponding increased and exceptional strain of the particular service

³² "The Florida Retirement System Pension Plan and Other Stat-Administered Systems Annual Report," *Department of Management Services, Division of Retirement Services*. Fiscal Year 2007-08.

³³ “Explanation of Benefits”, Employees Retirement System of Georgia, 2009; www.ers.ga.gov/plans/ers/formspubs/ERS_Handbook_06302009.pdf

³⁴ Employee Retirement System, State of Alabama, 2008; www.rsa-al.gov/ERS/Active%20Members/Vesting.pdf

provided; however, the number of employees that qualify for special risk class has increased 12 percent from 2004 to 2008 (from 66,861 in 2004 to 74,939 in 2008) while the regular class employees has grown by 6 percent during the same period. Employer contributions for special risk employees represent approximately 20 percent of their salary, which is about twice the percentage as for regular class employees, thus the increase in qualified employees represents a significant cost increase for state and local governments.

In 2009, contributions for special risk class employees were approximately \$780 million dollars or \$10,400 for each employee. A review of special risk eligibility based on criteria meeting legislative intent could result in a significant reduction in the number of special risk class employees and reduce pension contribution costs. For example, a reclassification of 10% of employees from the special risk to the regular class (7,500 employees) would result in an estimated savings of over \$40 million per year to state and local governments in FY 2010-2011.

Based on total contributions by state and local governments to the FRS defined benefits pension plan, savings to the state are estimated to be \$8 million with the remaining \$32 million in savings to local governments

Recommendation: The legislature should direct DMS to review the position requirements for each employee designated as special risk to determine if they meet the legislative intent for designation of this retirement classification.

26. Reduce the retirement credit for Senior Management System employees from 2% to 1.6% and for Special Risk from 3% to 2%

In FY 2007-08, the FRS paid nearly 276,252 annuitants over \$5.2 billion in pension benefits, which represented a 6% increase from the previous year. Contributions to the pension fund by state and local governments totaled nearly \$3.2 billion with \$672 million (21%) from the state and \$2,520 million from local governments.³⁵

The retirement credit for Senior Management System (SMS) employees is 2%, which is 0.4% higher than the 1.6% retirement credit for CS employees. In 2008, the average compensation for SMS employees was \$87,018. The average pension benefit for SMS annuitants in 2008 was \$40,267. The number of SMS employees increased by 21% from 6,312 on July 1, 2004, to 7,666 on June 30, 2008.

Special risk retirement credit was increased from 2% to 3%, phased in over a 5-year period (1989-1993) in 1989. Required contributions could be significantly reduced by reducing the SMS match from 2% to 1.6% and special risk from 3% to 2%.

A reduction in the retirement credit for SMS employees from 2% to 1.6% would result in an \$18.9 million reduction in annual contribution to the FRS defined benefit program. Approximately \$4 million of the \$18.9 million would be attributable to the required contribution

³⁵See Reference 33.

for state employees, with the remaining \$15 million associated with contributions made by local governments.

A reduction in the retirement credit for Special Risk employees from 3% to 2% would result in an annual reduction of \$290 million in required contributions by state and local governments to the FRS defined benefit plan. Approximately \$60 million would be attributable to the contributions for state employees, with the remaining \$230 million associated with contribution made by local governments.

Thus, reducing the retirement credit for both SMS and special risk employees would save \$64 million for the state in FY 10-11 (and recurring in out years) and \$245 million for local governments. If the change is made immediately, the state will have saved approximately \$200 million by FY 2012-13 and the local governments around Florida would have saved approximately \$1.3 billion.

Recommendation: The Legislature should amend Chapter 121, *Florida Statutes* to reduce retirement credits for the SMS retirement credit from 2% to 1.6% and the special risk retirement credit from 3% to 2%.

27. Transition to four-day workweek

As a means of reducing overhead, some private sector firms are transition from a 5-day-8-hour workweek to a 4-day-10-hour workweek. The four-day workweek would allow state office buildings to be closed one day per week (presumably Fridays), which means that the buildings do not have to be heated, cooled, cleaned, or lit. Potential operational cost savings include utilities (i.e., energy costs), janitorial services, and maintenance. The four-day workweek would also reduce the State's carbon footprint.

The state of Utah saved more than \$4.8 million in the first year from implementing the four-day workweek. Most of the savings associated with the transition to a four-day workweek in Utah was due to the resulting reduction of employee overtime – Utah realized 161,000 fewer hours of overtime resulting in a savings of \$4.1 million.³⁶ In FY 2008-09, Florida state agencies paid \$22.9 million in overtime to 16,329 employees. Savings realized from overtime alone could be significant.

Based on Utah's experience and factoring the savings to Florida based on employee populations, the state would be able to save near 30 million annually in overtime costs if

³⁶ Some experts have ventured that the longer work days enabled employees to complete more work even with fewer days and thus reduce the need for overtime. "The 4-Day Work Week: Is it Good for Business?", Center for Competitive Management Brigham Young University, 2008.

www.c4cm.com/handouts/documents/CCM4DayWorkWeekFinal.pdf

transitioning all state employees to the four-day workweek achieved the overtime savings realized by Utah.³⁷

Aside from the overtime-related savings, Utah also achieved a 13 percent reduction in energy usage.³⁸ A 13 percent reduction in energy usage in Florida would generate \$18,058,997 annually in savings for the state. If a similar decrease in the use of water and sewage are factored in, the savings would be \$21,321,705.³⁹

Obviously, it is unlikely that all employees would be able to be transitioned to a four-day workweek, and it is uncertain what percentage of the employees who are earning overtime pay could be transitioned to the four-day workweek. Furthermore, the estimates are based on full participation of working units within a facility and would not necessarily apply proportionately to partial participation. Nonetheless, combining the overtime savings and the utility cost savings based on Utah's successful experiment (not including any associated implementation costs or diminished savings due to partial participation), **Florida would save between \$4.7 million and \$5.1 million if just 10 percent of (non-higher education) employees were transitioned to the 10-hour, four-day workweek.**

Utah also realized savings and benefits that were not necessarily expected, including:

- A significant reduction in employee sick days;
- Lines at DMV actually got shorter with offices open earlier and staying open later; and,
- 85% of state employees were enthusiastic about the new schedule.⁴⁰

The four-day workweek also has a “green” goal and a financial benefit for state employees. Greenhouse gas emissions were reduced by an estimated 12,000 metric tons in Utah due to the commuting decrease and office building shutdowns, and state employees saved as much as \$6 million in gasoline costs due to reduced commutes.

Examples of Public Sector 4/10 Workweek

The use of a 4 day-10 hour workweek has been considered in a number of states, with Utah being the only example of a statewide implementation with a full year of experience.

³⁷ Florida has 7.25 times the number of Utah state employees transitioned to the four-day workweek. Florida estimates are calculated based on the savings experienced by Utah applied to the ratio of employees in Florida excluding higher education (124,963), thus Florida savings: \$4,100,000 * 7.25 = \$29,725,000.

³⁸ “Utah 4-Day Workweek Cuts Energy Usage by 13 percent,” The Salt Lake City Tribune, 5 August 2009. www.sltrib.com/news/ci_12997595?source=rss

³⁹ Energy usage as shown by Florida Accounting and Information (FLAIR) data for FY2008-09 expenditures for the following utilities items: electricity, natural gas, and steam.

⁴⁰ A survey is being conducted by Utah to determine whether the general public found the availability of state offices open more hours outside of the work day was better than the additional day.

- Utah – Statewide with full year results
- Hawaii – Limited pilot program
- Washington – Limited pilot program
- Virginia & West Virginia – Under consideration
- Iowa – Recently recommended as part of efficiency review conducted for the Governor

Recommendation: The Legislature should direct state agencies to increase utilization of a four-day workweek for employees where practical. Alternatively, the Legislature should direct DMS to evaluate the possibility of transitioning some government functions to four-day workweeks and develop a pilot program to be analyzed by OPPAGA.

28. Expand Telecommuting Program

The state should more fully embrace the use of off-site (“virtual”) at-home agents and employees in lieu of traditional in-office staff to save money. Along with businesses, federal, state, and local governments are increasingly using at-home agents and employees. These new at-home models can improve employee productivity, reduce costs associated with real estate (office space, furniture, fixtures, and equipment), improve work-life balance, lower attrition, increase the quality of new recruits, enhance disaster recovery and pandemic planning, and protect the environment as work commutes are reduced or eliminated.

Section 110.171, *Florida Statutes*, authorizes a state employee telecommuting program and directs the DMS to coordinate the program. More than 1 percent of SPS employees are currently reported as telecommuters (1,416 employees).⁴¹ The Department of Children Families employs more than 40 percent (622) of total state telecommuters and nine state agencies have no telecommuters.⁴² Expanding participation in this program throughout state government would produce significant savings.

- According to the Florida DMS, there are numerous potential benefits of telecommuting, some of which include:⁴³

Increased performance, productivity, and job satisfaction due to more flexible hours; potential money and time savings; reduced absenteeism and improved retention rates; reduced energy

⁴¹ This employee figure excludes higher education employees. There are approximately 125,000 state employees. Data provided by the People First Data Warehouse

⁴² Nine agencies without telecommuters: Dept. of Citrus, Dept. of Community Affairs, Dept. of Elder Affairs, Dept. of Military Affairs, Dept. of State, Division of Administrative Hearings, Executive Office of the Governor, Florida Dept. of Law Enforcement, Florida School for the Deaf and Blind.

⁴³ Florida Department of Management Services, Division of Human Resource Management, “Telecommuting: A Guide for Managers and Employees Considering a Voluntary Telecommuting Program,” updated 12/08; available at http://dms.myflorida.com/human_resource_support/human_resource_management/for_state_hr_practitioners/state_employee_telecommuting_program

consumption and pollution; enhanced compliance for the Americans with Disabilities Act (ADA); and promotes continuity of operations in the event of an emergency.

- Some examples of the savings for the employer and the increased productivity of employees are cited in a 2007 report by the Commonwealth of Virginia. The Maryland DOT experienced a 27 percent increase in productivity when more than 100 employees opted to telework.⁴⁴
- Private sector firms have also noted significant cost-savings and productivity increases from telecommuting. AT&T realized approximately \$150 million in annual savings; \$100 million through direct employee productivity, \$35 million through reduced real estate costs, and \$15 million through enhanced employee retention. At JD Edwards, workers who telecommute are 20 to 25 percent more productive than office workers. Call center and information technology research firm, Gartner, Inc., has saved between 8 percent and 30 percent by using virtual agents, compared with established or previous on-site agents.⁴⁵
- Estimating the cost savings associated with at-home programs requires assumptions of average costs. Leading industry experts conservatively estimate the facility-related cost savings (including utilities and space utilization costs) to be more than \$5,000 per employee per year. Additionally, assuming a personnel productivity enhancement increase of 25 percent, which has been documented in studies on telecommuting, there would be another \$1,000 per employee in cost-savings. **For every additional 1 percent of the workforce that is transitioned to telecommuting, the state would save \$7.5 million annually in facility and productivity savings** (not including implementation costs or delayed realization of savings due to incremental reductions in facility costs – i.e., while some facility-related costs would immediately fall for each employee transitioned to telecommuting, other space utilization costs may take more time if, for example, a lease needs to be allowed to expire or a state facility decommissioned and sold).

Recommendation: The Legislature should aggressively pursue all agencies to expand participation in the telecommuting program and expand the existing DMS telecommuting program without reducing the quality of services performed.

29. Expand use of teleconferencing to reduce state-funded travel expenditures

Teleconferencing is now being used by the private sector to reduce travel costs associated with in-person meetings. The technology is well-established, inexpensive, and already widely

⁴⁴ Commonwealth of Virginia, Council on Technology Services, Mobile Workforce Workgroup, “Teleworking Guide to Best Practices,” March 30, 2007, p.1.

⁴⁵ Gartner, Inc., “Focus on the Realities, Not the Myths, of the Work-at-Home Contact Center,” July 13, 2005.

available throughout state agencies and the legislature. Increasing the use of teleconferencing for state government meetings would produce significant savings for the state, especially where the technology to conduct teleconferences already exists in state facilities.

During FY 2008-09, the Legislature spent approximately \$5.4 million on expenses related to in-state travel. More than \$2 million (over 35 percent) of these expenditures took place between November and February, the period during which committee week meetings take place prior to session. (Almost all of the rest of the expenditures were between March and May when the Legislature holds its annual General Session.) Given currently available technology, the Legislature could conduct some early committee hearings using teleconferencing. For example, if the Legislature held one out of every four meetings using teleconferencing, the state would save approximately \$500,000 per year (not including any implementation costs) in travel costs; if just one in ten committee meetings were held using teleconferencing, the savings would be \$200,000 per year in travel costs. If the same examples were applied to the Legislature’s annual travel budget, the state would save \$540,000 to \$1.35 million annually (not including any implementation costs).

Furthermore, expanding teleconferencing to replace a portion of all in-state travel across all state entities (including statutorily or constitutionally created advisory bodies) would increase the savings dramatically. In FY 2008-09, the state spent approximately \$75.4 million on in-state travel. **A 10 to 25 percent reduction of in-state travel costs would yield a savings of \$7.5 million to \$18.9 million annually** (not including any implementation costs).

The table outlines the annual savings from reducing in-state travel costs

Entity	Current Expenditures	25% Reduction	10% Reduction
Legislature: November - February	\$2 million	\$500,000	\$200,000
Legislature- Total Year	\$5.4 million	1.3 million	\$540,000
All State Entities	\$75.4 million	\$18.9 million	\$7.5 million

Recommendation: The Legislature should conduct at least one in four meetings during committee week electronically to reduce travel costs, and should reduce travel-related appropriations for all state entities by a certain percentage and direct that each entity conduct their meetings remotely whenever possible without disrupting the quality of the services provided to taxpayers.

30. Implement a 401(a) FICA Alternative plan

Many school districts, community colleges, and universities have implemented 401(a) Federal Insurance Contributions Act (FICA) Alternative plans. This system permits government entities that hire part-time and temporary employees who are not in the state system to make contributions to a private retirement account that approximates their social security contribution. The plan is a defined contribution plan authorized under Section 403(b) of the Internal Revenue Code which allows participants to no longer contribute to the Social Security Administration.

Instead, employees will contribute 7.5% of their wages into an investment account in their name. Medicare contributions at 1.45% will continue to be withheld and matched by the employer.

Social Security payroll taxes are collected under authority of FICA. Social Security is currently withheld at 6.2% of eligible wages and matched by the university. There is no minimum age or service requirement.

The benefit to the state/employer is that the Social Security matching is not required and the benefit to the employee is the accumulation of their own investment account. From the employees' perspective, while they do not earn Social Security credits during their quarters of employment under this system, they do accumulate their own investment account.

SUS and state community colleges are currently implementing this 401(a) FICA Alternative plan. **By implementing a 401(a) FICA Alternative plan throughout state government, Florida would save \$10.1 million annually with no adverse affect on employee compensation.**⁴⁶

Recommendation: The Legislature should mandate 401(a) FICA Alternative plans for certain eligible state employees. The statute should direct that the plans be implemented by July 1, 2010 or as soon as possible thereafter. The plan shall be mandatory for designated eligible employees and employees shall be automatically enrolled or un-enrolled based on their salary plan status during the affected pay period.

31. Implement a 401(a) Special Pay plan

Some universities, community colleges, and school districts have implemented 401(a) Special Pay plans. This program exempts salaried (non-OPS) employees from having to pay the federal social security tax on their annual and sick leave payouts when they retire. This plan benefits retiring state employees and eliminates the need for the state to match their social security contributions, thus saving general revenue.

The Special Pay Plan is authorized under Section 401(a) of the Internal Revenue Code and is being implemented to provide the maximum tax advantages for vacation and sick leave payouts for certain government employees. The payments of vacation and sick leave to eligible employees will be invested in a 401(a) plan – either a fixed or mutual fund investment option. As a result of implementing this plan, the employee and the state will save the 6.2% of Social Security Tax and the 1.45% of Medicare Tax. Advantages of the plan are as follows:

- This plan provides the maximum tax advantages on sick and annual leave payments for both the employee and the state.

⁴⁶ Estimated savings= Total salary payments for part-time and temporary state employees * 6.2%; therefore Estimated savings = \$163,238,997 * 6.2% = \$10,120,817. Data source: Florida Accounting Information Resource (FLAIR), 2009.

- Participating employees do not pay Social Security taxes for the funds invested in this plan and Social Security taxes are never due on these funds.
- Contributions to this plan are pre-tax. Therefore, the total amount of taxes paid will be reduced. No taxes are paid on the contributions until they are withdrawn.

SUS and state community colleges are currently implementing this Special Pay plan. **Implementing Special Pay plans throughout state government would provide more than \$1.3 million in savings annually and will allow the employees to keep more of their one-time payout by avoiding payroll tax on that income.**⁴⁷

Recommendation: The Legislature should mandate Special Pay Plans for eligible state employees. The statute should direct state agencies that the plans be implemented by July 1, 2010 or as soon as possible thereafter.

32. Standardize or eliminate annual leave accrual

State employees with the pay plan designations of Select Exempt Service (SES) and SMS are permitted to accrue a total 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 656. 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.

Additionally, accrued annual leave hours are factored into pension benefit payouts using the following formulas:

$$\text{SMS: } \frac{\text{total payout for accrued annual leave}}{5} * (\text{years of service} * 0.02)$$

$$\text{SES and CS: } \frac{\text{total payout for accrued annual leave}}{5} * (\text{years of service} * 0.016)$$

⁴⁷ Expected savings = Total annual and sick leave payouts for those who are eligible for social security contribution * 7.65%; Expected savings = \$17,342,610 * 7.65% = \$1,326,710 (the terminations with annual and sick leave data came from Florida Department of Management Services). Estimates assume Social security contribution limit of \$16,800 for 2009; No Medicare contribution limit; no implementation cost to the state.

Limiting the total annual leave hours permitted for accretion by all SMS, SES, and CS employees to 240 will result in \$1.76 million annually in cost savings for the state (\$1.4 million in annual leave payouts; \$360,000 in pension benefits). If annual leave reimbursement is completely eliminated, as is common in the private sector, the state would save \$10.1 million annually (\$9.6 million in annual leave payouts; \$430,000 in pension benefits).

Recommendation: The Legislature should make either of the following two amendments to the current annual leave accrual policy:

The maximum amount of accrued annual leave hours permitted for CS, SES, and SMS employees is capped at 240.

Adopt a “use it or lose it” policy, in which all unused annual leave hours are wiped out at the end of each fiscal year with no reimbursement for any unused hours.

33. Eliminate sick leave accrual

All state employees with the pay plan designation of SMS, SES, and CS currently receive 104 hours of sick leave annually and are permitted to accrue a lifetime total of 1,920 unused hours for which they receive a reimbursement upon voluntary or involuntary separation. Departing employees are paid 25 percent of their hourly wage at the time of termination for every hour of sick leave accumulated and accrued sick leave hours are factored into pension benefit payouts. Few private entities allow departing employees to cash in their unused sick leave.

The state would save \$5.64 million annually (\$5.2 million in sick leave payouts; \$440,000 in pension benefits) if the accumulation of and reimbursement for rolled over sick leave hours is completely eliminated.

Recommendation: The Legislature should abandon the current policy for sick leave accrual and instead adopt a “use it or lose it” policy, in which all unused sick leave hours are wiped out at the end of each fiscal year with no reimbursement for those unused hours.

34. Standardize payroll cycles

Florida currently has more than 10 different payroll cycles. Simplifying the number of payroll cycles and payrolls produced throughout state government will reduce costs. Additionally, the state should evaluate options reducing the number of pay periods because fewer paychecks (for the same annual salary) produce savings and increase interest earned without adversely affecting employee pay levels.

Annually Per 10,000 Employees Migrated From Weekly to New Pay Cycle

	Cost Savings Per Paycheck ¹		Est. Interest Gain
	\$2.00	\$10.00	2.50%
Weekly to Bi-Weekly	\$530,400	\$2,652,000	\$2,629,500
Weekly to Semi-Monthly	\$571,200	\$2,856,000	\$2,436,100
Weekly to Monthly	\$816,000	\$4,080,000	\$3,747,700

¹ Including materials, production, systems, 2% reissues, and distribution.

Another potential savings option is to ensure that every employee is on a semi-monthly (i.e., two pay periods per month, e.g., the 1st and the 15th) instead of bi-weekly (i.e., one pay period every two weeks). Bi-weekly systems have 26 pay periods whereas semi-monthly systems have only 24, which benefits the taxpayers (through savings and earned interest) without affecting employee’s pay levels.

Recommendation: The legislature should direct the DMS to reduce the number of payroll cycles and evaluate opportunities for reducing the number of pay periods without adversely affecting employee salary levels.

35. Increase state employee parking fees to make the state-owned parking system self-sufficient

State employee parking fees have not been raised since 1972 and they are not sufficient to cover the cost of the state owned (taxpayer funded) parking services. A 1998 OPPAGA report found that:

“Annual revenues from these fees do not cover the cost of administering, maintaining, and providing security for parking facilities in the Florida Facilities Pool. Fee revenues also do not cover any of the costs associated with constructing parking facilities and acquiring land on which to build them. Further, the Department of Management Services is not complying with statutory requirements to establish a fee for scramble permits. Raising parking fees would help the Facilities Program recover more of its costs and could have the effect of reducing employee demand for parking and encouraging use of alternative modes of transportation.”

A 2008 OPPAGA Research Memorandum finds that fees have not been raised and they are still insufficient to cover program costs.

Current parking fees for reserved/permit paid parking are as follows:

- Covered: Monthly - \$6.00; Biweekly - \$2.77; Daily - 19.8 cents
- Uncovered: Monthly - \$4.00; Biweekly - \$1.85; Daily - 13.3 cents
- Surface: Monthly - \$2.00; Biweekly - \$ 0.93; Daily - 6.6 cents

The OPPAGA report recommended a new schedule of fees that would cover the costs of operating, maintaining, and constructing the parking facilities. It offered three schedules of fees to cover: 1) the cost of operating and maintaining parking facilities; 2) the cost of operating maintaining and one-half of constructing the facilities; and 3) the cost of operating, maintaining and all of constructing the facilities. Increased annual revenues range from \$750,000 for Schedule 1 to \$3.6 million for Schedule 3.

Recommendation: The Legislature should increase state employee parking fees to fully cover the costs of operating, maintaining, and constructing the parking facilities, as per the OPPAGA report.

Alternative #1: Increase state employee parking fees to cover the costs of operating and maintaining the parking facilities, and half of the cost of construction. This reform would raise \$2.2 million.

Alternative #2: Increase state employee parking fees to only cover the costs of operating and maintaining the parking facilities. This reform would raise \$750,000.

36. Require reimbursement of training costs for certified law enforcement/corrections officers that terminate employment with the state and go to work for local government prior to completing two years of service

Florida expends significant resources on training and certifying state law enforcement and correctional officers each year. These newly trained and certified officers are often recruited and hired away from state service by local governments who then enjoy the benefit of not having to incur training and certification costs for new personnel. State government could reduce its training and certification expenditures by requiring local governments to reimburse the state for training and certification costs for all certified officers who terminate their employment with the state for a job with local government prior to completing two years of service. Such an arrangement could also be carried out via employment agreement provisions at time of hire.

Recommendation: The Legislature should statutorily require local governments (and all other governmental entities) to reimburse the state for training and certification costs incurred for all state law enforcement/corrections officers who are hired by local government entities (or other governmental entity) prior to the certified officers completing a minimum of 2 years of state service.

Alternative Recommendation: Include requiring state agencies to execute employment agreements with certified officers, requiring employees to reimburse such costs should they terminate state employment for a job with local government (or other governmental entity) prior to completing 2 years of state service.

37. Encourage and reward innovation and cost savings in state agencies

For more than 20 years, Florida TaxWatch has administered the Prudential-Davis Productivity Awards program to recognize and reward innovation and cost savings by government

employees. The program has saved the taxpayers more than \$6 billion. The same concept should be extended to government. Incentivizing cost savings by allowing agencies to keep a portion of the appropriated but unspent funds would produce significant savings for the taxpayers.

Florida law contains several provisions encouraging innovative ideas and authorizing agencies to retain some portion of such savings. The majority of these require further legislative action in order to be utilized (e.g. Legislative Budget Commission action or re-appropriation). In recent years, it has not been possible for agencies to take advantage of these programs as any unspent funds have been forced to revert.

Recommendation: The legislature should extend the statutory provisions encouraging and rewarding innovation to include all state spending.

Government Cost Savings Task Force

Chapter 3 – Corrections (Justice Reform) Recommendations

- 38. Require written justification for prison sentences given to individuals with sentencing scores of 44 or less**
- 39. Expand electronic monitoring as alternative to prison sentences**
- 40. Expand adult post-adjudicatory drug courts**
- 41. Institute adult post-incarceration drug courts**
- 42. Increase the maximum gain time accrual allowed**
- 43. Authorize the possibility of parole for certain offenders who were juveniles when sentenced**
- 44. Authorize the possibility of parole for certain elderly offenders**
- 45. Reclassify low level drug possession as a misdemeanor**
- 46. Expand work release programs**
- 47. Expand the Redirection program**
- 48. Expand programs that reduce recidivism to slow new prison construction**

Introduction

More than 39,000 individuals are expected begin serving a prison sentence in Florida during FY 2010-11. This already shocking figure will increase by more than 1,300 new entrants during the subsequent two fiscal years, exceeding 40,000 individuals beginning prison sentences in 2012-13.⁴⁸

Every individual who begins serving a sentence in FY 2010-11, many of whom have been in prison before, will cost the taxpayers approximately \$17,500 for their first year of incarceration and more than \$16,000 annually thereafter until their release (at which point their return to prison is likely, based on recidivism data). Moreover, research indicates that more than 50 percent of the prison sentences will be for non-violent,⁴⁹ non-weapons related crimes.⁵⁰

⁴⁸ Office of Economic and Demographic Research Criminal Justice Estimating Conference report, April 30, 2009. This figure assumes that the distribution of crimes will remain constant over future time periods.

⁴⁹ See Appendix on page 55.

⁵⁰ *Id.* Furthermore, the estimates show that approximately 13% of new entrants are projected to receive year-and-a-day sentences. Year-and-a-day sentences (366 days) are the minimum threshold for which an offender must serve sentence in prison. Sending a low-level offender to state prison and jail could mean millions of taxpayer dollars.

During these difficult fiscal times we must reconsider the efficiency of our judicial system. There are simply less costly and more effective ways to impose sentences on low-level offenders than incarceration in state prison.

Other states have enacted reforms of the types proposed herein and have seen a concurrent drop in criminal justice expenses and crime rates. Through the expansion of prison diversion programs, Texas was able to save \$512 million in FY 2008-09 and simultaneously see a drop in probation and parole revocations by 26 percent and 4 percent, respectively. Likewise, as a result of the restoration of earned time and other reforms instituted by Kansas, the state was able to save \$80 million in corrections costs over a five year period while seeing a 46 percent reduction in parole revocations and a 28 percent drop in probation revocations.⁵¹

Florida needs forward-looking criminal justice reform now to help address the budget shortfall in the short-term and to create a more reasonable, efficient, and effective justice system in the long-term. One major step in the right direction would be for the state to fully implement Senate Bill 2000, passed in 2008, which established the Correctional Policy Advisory Council. Seating this Council and thoughtfully considering its recommendations is one of the most important short-term and long-term recommendations that can be made in the area of criminal justice and corrections.

In the spirit of the non-yet-seated Correctional Policy Advisory Council, the following recommendations are offered to create a more cost-effective justice system for the taxpayers of Florida while balancing the needs of the state's prison system, traditional criminal justice, and, of course, public safety.

38. Require written justification for prison sentences given to individuals with sentencing scores of 44 or less

Minimum sentences for felony criminal infractions are based on an offender's sentencing score as determined by the Criminal Punishment Code, Chapter 921, *Florida Statutes*.⁵² A sentencing

⁵¹ "Less Crime, Lower Costs: What's working across America" Presentation by Adam Gelb, Director of the Public Safety Performance Project at the PEW Center on The States, given in November 16, 2009 at the Justice Summit 2009

⁵² "Chapter 921, the Criminal Punishment Code ("Code") applies to defendants whose non-capital felony offenses were committed on or after October 1, 1998. Each non-capital felony offense is assigned a level ranking that reflect its seriousness. There are ten levels, and Level 10 is the most serious level. The primary offense, additional offenses and prior offenses are assigned level rankings. Points accrue based on the offense level, with higher level accruing a greater number of points. The primary offense accrues more points than an additional or prior offense of the same felony degree. Points may also accrue or be multiplied based on other factors such as victim injury, legal status, community sanctions, motor vehicle theft, etc.

The total sentence points scored is entered into a mathematical computation that determines the lowest permissible sentence. If the total sentence points equals or is less than 44 points, the lowest permissible sentence is a non-state prison sanction, though the sentencing range is the minimum sanction up to the maximum penalty provided in s. 775.082, F.S. If the total sentence points exceeds 44 points, a prison sentence is the lowest permissible sentence, though the judge may sentence up to the maximum penalty provided in s. 775.082, F.S. Sentence length (in months)

score of more than 45 points means that an offender is sentenced to prison (i.e. the sentence is more than 366 days).⁵³

In 2009, the Florida Legislature implemented SB 1726 to (among other things) reduce the number of non-violent offenders sentenced to state prison, except where a non-prison sentence could endanger the public.⁵⁴ New law forbids judges from sentencing certain non-violent offenders (with a sentencing score of 22 points or less) to prison without providing written justification for such a sentence. The law also created a state-funded prison diversion program.⁵⁵ Expanding the new law to include more non-violent offenders with sentencing scores of 44 points or less would produce significant savings while maintaining public safety by allowing judges the discretion to sentence an offender to prison with written justification for the sentence.

In FY 2006-07, then-Secretary of the Florida DOC James “Jim” McDonough reported that 3,656 offenders with sentencing scores of 44 points or less were given year-and-a-day sentences to be served in Florida’s prison system. These offenders constituted about 9.5 percent of total admissions during that fiscal year.

Assuming 9.5 percent of estimated prison admissions in FY 2010-11 (based on EDR forecasts) will have a sentencing score of 44 or less, there will be 4,168 new offenders potentially eligible for prison diversion.⁵⁶ The table on Page 4 provides the potential savings to the state based on the percentage of potentially eligible prison admission that are granted the diversion program.⁵⁷ The cost-savings estimates were calculated by taking the enumerated percentage of the total

for the lowest permissible sentence is determined by subtracting 28 points from the total sentence points and decreasing the remaining total by 25 percent.” *The Florida Senate, Professional Staff of the Policy and Steering Committee on Ways and Means, Bill Analysis and Fiscal Impact Statement of CS/SB 1722, April 6, 2009, p. 2-3.*

⁵³ “The lowest permissible sentence is the minimum sentence that may be imposed by the trial court, absent a valid reason for departure. The lowest permissible sentence is any non-state prison sanction in which the total sentence points equals or is less than 44 points, unless the court determines within its discretion that a prison sentence, which may be up to the statutory maximums for the offenses committed, is appropriate. When the total sentence points exceed 44 points, the lowest permissible sentence in prison months shall be calculated by subtracting 28 points from the total sentence points and decreasing the remaining total by 25 percent.” S. 921.0024(2), *Florida Statutes* (2009).

⁵⁴ “This diversionary approach restricts judicial discretion for certain low-scoring offenders where a prison sanction is not recommended under the Criminal Punishment Code unless the court makes written findings that a non-state prison sanction could present a danger to the public. This new automatic non-state prison sanction is only applicable for third degree felons who have 22 or less total sentencing points and who have not been convicted of a forcible felony as defined in s. 776.08, F.S., except those forcible felonies involving burglary of an unoccupied conveyance or structure in Chapter 810, F.S.” *The Florida Senate, Professional Staff of the Policy and Steering Committee on Ways and Means, Bill Analysis and Fiscal Impact Statement of CS/SB 1722, April 6, 2009, p. 7.*

⁵⁵ S. 921.00241, *Florida Statutes* (2009)

⁵⁶ According to EDR’s Criminal Justice Estimating Conference on April 30, 2009, judges began to replace year-and-a-day sentences with year-and-a-month sentences after 2007. This analysis assumes that year-and-a-day and year-and-a-month still constitute approximately the same percentage of total admissions.

⁵⁷ Note: The estimated savings do not account for number of offenders who are eligible under the current version of 1726.

potentially eligible prison admissions (i.e., 9.5% of the forecasted admissions for each year) and multiplying that amount by the annual cost of incarcerating those individuals.⁵⁸

Estimated annual cost savings if given percentage of potentially eligible new prison admissions were diverted away from the state prison system, FY 2010-11 – FY 2012-13

	Number of Eligible New Entrants	50% Diverted	25% Diverted	10% Diverted
FY 2010-11	4,168	\$26,128,775.20	\$13,064,387.60	\$5,225,755.04
FY 2011-12	4,312	\$27,031,496.80	\$13,515,748.40	\$5,406,299.36
FY 2012-13	4,448	\$27,884,067.20	\$13,942,033.60	\$5,576,813.44

Recommendation: The Legislature should require judges to provide written justifications for handing down prison sentences to individuals with sentencing scores of 44 or less.

39. Expand electronic monitoring as alternative to prison sentences

Imposing alternative sentences to incarceration within a state prison facility for certain, eligible offenders could ease the financial burden on Florida. Electronic monitoring offers a cost-effective alternative to incarceration for those individuals who are deemed to be at a low-risk for reoffending, concurrently allowing them to remain under close supervision in the community. There are approximately 2,300 individuals presently under some form of electronic monitoring in Florida.⁵⁹ Expanding the number of prison-bound offenders who are placed on electronic monitoring could represent significant savings for the state.

The per diem cost of GPS electronic monitoring is \$8.94 per offender and the per diem cost of radio frequency electronic monitoring is \$1.94 per offender. Additionally, electronically monitored offenders are required to pay a fee (resulting in a revenue collection of \$532,812 during FY 2007-08). **Annual savings of \$5,505,800 could be achieved from every 1,000 additional offenders diverted to electronic monitoring assuming a 50 percent success rate.**⁶⁰

Recommendation: The Legislature should allow for the expansion of electronic monitoring as an alternative to incarceration for certain, non-violent⁶¹ offenders headed towards state prison.

⁵⁸ \$44.03 per day for all facilities after an average 5 weeks of stay in a reception center at \$85.94 per day cost. For more conservative estimates we use the average daily cost of \$44.03 per inmate, which is a weighted average that excludes the daily cost of reception centers. The data was calculated using the Department of Corrections FY 08-09 Budget Report. A diversion program cost of \$5,000 is assumed for each diverted offender and the cost-savings estimate is reduced by that amount.

⁵⁹ Florida Senate Criminal and Civil Justice Appropriations Committee Bill Analysis and Fiscal Impact Statement for SB1722, April 6, 2009

⁶⁰ Annual cost is calculated using the following formula: \$8.94*365. It is also assumed that there is linear relationship between costs and savings (i.e. no increasing marginal cost of expanding the program)

⁶¹ See Appendix on page 55.

40. Expand adult post-adjudicatory drug courts

“Drug Courts” were first implemented by judges in Florida during the late 1980s as a strategy to curb the number of drug users headed towards prison and offer “habilitation/rehabilitation through proactive court monitoring of offenders while in treatment.”⁶² Last year’s SB 1726 made a first step in expanding Florida’s Drug Court program in nine (9) targeted counties: Hillsborough, Duval, Broward, Polk, Pinellas, Orange, Marion, Volusia, and Escambia. Other counties, however, are still restricted to the narrow eligibility in the original version of Section 948.08(6), *Florida Statutes*, or do not have drug courts at all.

A drug court program’s intense supervision and treatment have been found to be more effective by the Florida Senate and OPPAGA than felony probation or prison for the large number of nonviolent offenders who need substance abuse treatment.⁶³

According to the Florida State Court System’s “Adult Post-Adjudicatory Drug Court Expansion Plan,”⁶⁴ approximately 2,000 non-violent offenders from the nine (9) aforementioned counties are currently targeted for inclusion in drug courts annually, of which roughly half are expected to successfully complete the program (about 20% are expected to return to the state prison system over a three year period).⁶⁵

The savings from using drug courts in lieu of prison sentences for eligible offenders can be significant. ⁶⁶ **Annual savings of \$4,225,900⁶⁷ could be achieved from every 1,000 additional**

⁶² Supreme Court Task Force on Treatment-Based Drug Courts: “Report on Florida’s Drug Courts.” July 2004

⁶³ As evidenced by the OPPAGA, “State’s Drug Courts Could expand to Target Prison-Bound Adult Offenders,” Report No. 09-13, March 2009

⁶⁴ Adult Post-Adjudicatory Drug Court Expansion Plan, Presented by the Florida State Courts System to the Joint Legislative Budget Commission on July 30, 2009

⁶⁵ According to the plan, the resulting savings have been estimated at \$95 million in terms of the eliminated need to build an additional prison and about \$28 million annually in terms of forgone operational costs. *Ibid.*

⁶⁶ As part of the legislative analysis for SB 1726 in 2009, The Office of Economic and Demographic Research estimated that increasing the drug court program to include 160 additional participants could save \$11.8 million during FY 2009-10 -The Professional Staff of the Policy and Steering Committee on Ways and Means, The Florida Senate, “Bill Analysis and Fiscal Impact Statement, CS/SB 1726,” April 6, 2009.

⁶⁷ The average cost of housing an inmate during the first year is \$17,537.80, the expansion of the drug courts is entirely state funded, the average annual cost of participation in Florida drug courts per individual is \$4,543. According to information provided by the Florida Department of Corrections Bureau of Research and Data Analysis, the weighted average for daily institutional costs is \$44.03 per inmate (excluding those housed in reception centers), which was multiplied by 330 days to estimate annual cost. The first 35 days on average are spent in reception centers with per diem costs of \$85.94. Average yearly cost = (average daily cost for reception center)*(35 days spent at a reception center) + (weighted average daily cost at general facility)* (330 days spent at a general facility in a given year). The Supreme Court Task Force on Treatment-Based Drug Courts’ “Report on Florida’s Drug Courts” states that average annual cost per drug court participant is \$2,500-\$4,000. Our calculation took the \$4,000 value for a conservative estimate and adjusted it for inflation. It is also assumed that a linear relationship exists between the costs and savings associated with expanding the programs (i.e., does not account for a diminishing marginal return).

offenders diverted into drug courts assuming that 50 percent of them successfully serve their sentence (and therefore not go to prison at all).⁶⁸

Recommendation: The Legislature should build on the effort initiated through the passing of SB 1726 and allow for the expansion of adult post-adjudicatory drug courts in all Florida counties where they do not currently exist or where eligibility is still restricted under more stringent requirements.

41. Institute adult post-incarceration drug courts

Many offenders currently serving prison sentences for primary offenses other than drug possession are still drug users in need of rehabilitation. Approximately 60 percent of all arrests are for crimes committed either under the influence of drugs and alcohol or are committed to acquire drugs or alcohol.⁶⁹ Further, a report issued by the White House Office of National Drug Control Policy (ONDCP)⁷⁰ in 2000 found that 27 percent of inmates serving in state prisons for committing property crimes did so to attain more drugs and approximately 36.6 percent of inmates serving state prison sentences for committing property crimes were on drugs at the time of their offense. As of December 31, 2009, there were 23,463 inmates serving time for property crimes (e.g. any burglary, fraud);⁷¹ if at least 30 percent of these inmates committed their crime for drug related reasons then there are more than 7,040 individuals in Florida's prisons who committed property crimes and are in need of drug rehabilitation. Concurrently there were 19,723 drug offenders (e.g. possession, trafficking, and manufacturing) serving in Florida's prison system. Although drug rehabilitation programs exist within state facilities, significant savings could be achieved if certain offenders were allowed to receive treatment outside of the confines of prison during the last portion of their prison sentence.

Allowing some non-violent offenders to participate in drug court programs after serving 60 percent of their sentence would ensure that they continue to be monitored but receive treatment at a significantly lower cost to the state. Florida TaxWatch identified approximately 15,000 non-violent⁷² offenders currently in the state prison system of which a considerable portion could be directed towards post-incarceration drug courts. **Annual savings of \$1,841,350 could be achieved for every 1,000 non-violent inmates that were allowed to participate in drug**

⁶⁸ The OPPAGA Report: "State's Drug Courts Could Expand to Target Prison-Bound Adult Offenders," March 2009 states 50% success rate for completion of drug court by diverted offenders.

⁶⁹ Supreme Court Task Force on Treatment-Based Drug Courts, "Report on Florida's Drug Courts," July 2009.

⁷⁰The White House ONDCP Drug Policy Information Clearinghouse Factsheet: "Drug Related Crime." March 2000

⁷¹ Data provided by the Department of Corrections Bureau of Research and Data Analysis. "Property Crime" as defined by the White House ONDCP, www.whitehousedrugpolicy.gov/publications/factsht/crime/index.htm.

⁷² See Appendix on page 55.

courts after having served 60 percent⁷³ of their sentence assuming a conservative 50% completion rate.⁷⁴

Recommendation: The Legislature should permit those incarcerated drug offenders who have served at least 60 percent of their original prison sentence to complete the remaining portion of their term as a participant in a community-based drug court program.

42. Increase the maximum gain time accrual allowed

Florida law allows most prison inmates to earn monthly awards of up to 10 days per month off their prison sentence; however, the accumulation of these awards, known as “gain time”, are capped at 15 percent of the total prison sentence for inmates sentenced for offenses on or after October 1, 1995. Although the rules governing gain time are complex, the gain time system provides inmates with incentive to exhibit positive behavior, participate in rehabilitative programs, and engage in other constructive activities. For example, “Incentive Gain Time” is awarded for eligible inmates who have “worked diligently, participated in training, used time constructively or otherwise engaged in positive activities;” “Meritorious Gain Time” is available to an inmate who “performs an outstanding deed, such as saving a life or assisting in recapturing an escaped inmate, or who in some manner performs an outstanding service that would merit the granting of additional deductions from his sentence length...”⁷⁵

In addition to providing incentive for prisoners to behave, adjusting the 15 percent cap on accumulated gain time would result in considerable cost-savings for the state while appropriately balancing public safety. This is accomplished because corrections officials determine gain time allocation; the Legislature only sets the maximum cap. The prison officials are responsible for determining who earns enough gain time to be eligible for early release.

Several states have implemented or expanded gain time in recent years. In 2003, the Washington Legislature increased gain time from 33 percent to 50 percent of total sentence for eligible non-violent offenders. A follow up study charged with determining the impact of the new policy found that the average length of stay in prison for eligible offenders was reduced by 63 days, resulting in an average \$5,500 per inmate savings for the state in foregone prison operating and

⁷³ This yields an average reduction of 290 days per year from current sentences when applied to the entire non-violent population.

⁷⁴ The Supreme Court Task Force on Treatment-Based Drug Courts’ “Report on Florida’s Drug Courts” states that average annual cost per drug court participant is \$2,500-\$4,000. Our calculation took the \$4,000 value for a conservative estimate and adjusted it for inflation. It is assumed that the cost of drug courts is the same per participant regardless of whether participation is before or after incarceration. The OPPAGA Report: “State’s Drug Courts Could Expand to Target Prison-Bound Adult Offenders,” released on March 2009 provides a 50% success rate for completion of drug court by diverted offenders. This success rate is assumed to be the same for offenders entering the program post incarceration. The estimation also assumes that there is a linear relationship between cost and savings (i.e. no increasing marginal cost) with the cost per participant of drug courts being \$4,543 annually.

⁷⁵ Florida Administrative Weekly and Florida Administrative code. <https://www.flrules.org/gateway/RuleNo.asp?ID=33-603.401>.

capital costs. Concurrently, the study found that the recidivism rate for these early released offenders fell by 3.5 percent when compared to offenders released on earned time prior to the implementation of the new policy.⁷⁶

The potential savings from increasing the gain time cap in Florida were calculated by subtracting the potential additional gain time for every current,⁷⁷ non-violent⁷⁸ offender assuming incremental 5% increases in gain time⁷⁹ and multiplying the difference in days by the average daily cost of housing inmates.⁸⁰

**Table: Estimated savings achieved from releasing non-violent inmates at different increments of maximum gain time
FY 2010-11**

Percent of Non-Violent Inmates Released with Maximum Gain Time	20% Maximum Gain Time	25% Maximum Gain Time	30% Maximum Gain Time	35% Maximum Gain Time
100%	\$177,310,051.79	\$211,705,865.87	\$245,727,413.91	\$279,488,730.46
50%	\$88,655,025.89	\$105,852,932.94	\$122,863,706.96	\$139,744,365.23
25%	\$44,327,512.95	\$52,926,466.47	\$61,431,853.48	\$69,872,182.62
10%	\$17,731,005.18	\$21,170,586.59	\$24,572,741.39	\$27,948,873.05

**Table: Estimated savings achieved from releasing only non-violent inmates with no prior commitments to state prison at different increments of maximum gain time,
FY 2010-11**

Percent of Non-Violent Inmates Released with Maximum Gain Time	20% Maximum Gain Time	25% Maximum Gain Time	30% Maximum Gain Time	35% Maximum Gain Time
100%	\$90,200,802.26	\$106,271,126.14	\$121,879,079.78	\$137,112,498.80
50%	\$45,100,401.13	\$53,135,563.07	\$60,939,539.89	\$68,556,249.40
25%	\$22,550,200.57	\$26,567,781.53	\$30,469,769.94	\$34,278,124.70
10%	\$9,020,080.23	\$10,627,112.61	\$12,187,907.98	\$13,711,249.88

⁷⁶ Lawrence, Alison *Cutting Corrections Costs: Earned Time Policies for State Prisoners*. National Conference of State Legislatures, July 2009. Available at <http://www.ncsl.org/default.aspx?TabId=18216>.

⁷⁷ Current as of December 31, 2009; data provided by the Department of Corrections Bureau of Research and Data Analysis. "Property Crime"- as defined by the White House ONDCP.

⁷⁸ "Violent crimes" as defined by the White House ONDCP; additionally any crimes involving a weapon, including illegal possession and armed burglary, were considered to be violent offenses in this analysis. For an exact list of violent and non-violent crimes as defined by Florida TaxWatch, please see Appendix on page 55.

⁷⁹ As a conservative estimating measure it is assumed that every inmate will serve 85% of their sentence.

⁸⁰ An average per diem cost of \$52.00 is used for inmates housed in a public institution and \$45.53 is used for inmates housed in a private institution. According the Department of Corrections FY 08-09 Budget Report, approximately 7.8% of inmates are housed in private facilities at an average \$45.53 per day. For our estimates the weighted average was used.

Recommendation: Legislature should amend 944.275(3), *Florida Statutes*, to increase the maximum attainable gain time for certain eligible, non-violent offenders.

43. Authorize the possibility of parole for certain offenders who were juveniles when sentenced

There are 2,922 inmates currently housed in Florida’s prison system who were under the age of 18 when they were sentenced. Allowing certain juvenile offenders who were convicted of crimes other than capital murder, have served at least 10 years of their sentence, and have no prior convictions or parole violations to be considered eligible for parole by the Florida Parole Commission (FPC) could represent significant savings for the state.⁸¹ Similar initiatives are currently being proposed by the State Legislature.⁸² Additionally, screening by the FPC would ensure that discretion is used in the release of eligible individuals.

Table: Estimated annual cost savings if given percentage of potentially eligible inmates were approved for parole by Parole Commission, FY 2010-11 – FY 2012-13⁸³

	100% Approved	50% Approved	25% Approved	10% Approved
FY 2010-11	\$4,991,915.20	\$2,495,957.60	\$1,247,978.80	\$499,191.52
FY 2011-12	\$5,400,029.00	\$2,700,014.50	\$1,350,007.25	\$540,002.90
FY 2012-13	\$5,888,785.90	\$2,944,392.95	\$1,472,196.48	\$588,878.59

Recommendation: The Legislature should allow juvenile offenders who have served 10 years of their sentence, were convicted of crimes other than capital murder, have no prior convictions, and have demonstrated exemplary behavior while serving their sentence to be eligible for parole.

44. Authorize the possibility of parole for certain elderly offenders

Literature shows that most offenders age out of their crime-committing years. Florida is increasingly saddled with the medical costs of an elderly prison population when at least a portion of these offenders would pose little, if any, risk to the public out of prison. Allowing offenders who are over the age of 65, are serving a sentence for a crime other than capital murder, have served at least 20 years of their sentence, and have no previous parole violations to

⁸¹ According to the data provided by the Department of Corrections Bureau of Research and Data Analysis, there were 266 offenders as of January 2010 who were convicted as juveniles of crimes other than capital murder, have no prior convictions, have not been found in violation of parole, have served at least 10 years of their sentence, and who will still have over a year to serve as of the end of the current fiscal year on June 30, 2009. The number of inmates fitting these criteria will increase to 314 offenders by January 2012.

⁸² Two bills introduced in the 2010 Legislative Session, SB 184 and HB 23, would allow parole for adolescent offenders who were 15 years of age at the time of offense and have served at least 10 years of their sentence with no prior convictions

⁸³ An average per diem cost of \$52.00 is used for inmates housed in a public institution and \$45.53 is used for inmates housed in a private institution. According the Department of Corrections FY 08-09 Budget Report, approximately 7.8% of inmates are housed in private facilities at an average \$45.53 per day. For our estimates the weighted average was used.

be eligible for release – subject to a thorough review process assessing the appropriateness of their release – could ease the financial strain on Florida.⁸⁴ Similar initiatives have already been proposed by members of the state Legislature,⁸⁵ and an extensive and thorough screening process, most likely including the input of the FPC, corrections' officials, and mental health and other professionals intimately associated with the criminal justice system, would ensure careful evaluation of all inmates considered for release to appropriately balance the critical public safety considerations.

Table: Estimated annual cost savings if given percentage of eligible inmates were approved for parole by Parole Commission after 20 years, FY 2010-11 – FY 2012-13⁸⁶

	100% Approved	50% Approved	25% Approved	10% Approved
FY 2010-11	\$2,230,193.80	\$1,115,096.90	\$557,548.45	\$223,019.38
FY 2011-12	\$3,022,630.70	\$1,511,315.35	\$755,657.68	\$302,263.07
FY 2012-13	\$3,741,509.15	\$1,870,754.58	\$935,377.29	\$374,150.92

Table: Estimated annual cost savings if given percentage of eligible inmates were approved for parole by Parole Commission after 25 years, FY 2010-11 – FY 2012-13

	100% Approved	50% Approved	25% Approved	10% Approved
FY 2010-11	\$1,264,575.35	\$632,287.68	\$316,143.84	\$126,457.54
FY 2011-12	\$1,852,955.35	\$926,477.68	\$463,238.84	\$185,295.54
FY 2012-13	\$2,268,153.80	\$1,134,076.90	\$567,038.45	\$226,815.38

Recommendation: The Legislature should allow inmates who are over the age of 65, are serving a sentence for a crime other than capital murder, have no previous parole violations, and have served at least 20 years of their original sentence to be eligible for parole subject to a thorough review process assessing the appropriateness of their release.

⁸⁴ Being over the age of 65 would also qualify released inmates for Medicare, removing 100 percent of the medical costs currently incurred by Florida for each parolee.

⁸⁵ SB 484 has been introduced for the 2010 Legislative Session to address this issue and the bill's passing would allow some of the aging inmates to earn their way to re-entry. Specifically, the bill applies to inmates aged 50 years and over who have served 25 consecutive years of a sentence and are serving a sentence other than death. According to this bill the Florida Parole Commission (FPC) may approve parole if the inmates meeting these requirements have shown reform in behavior and remorse for crimes committed.

⁸⁶ According to data provided by the Department of Corrections (DOC) Bureau of Research and Data Analysis, there were approximately 500 inmates as of January 2010 who would be eligible for parole under these guidelines and who have more than a year left on their sentence at the beginning of FY 2010-11. By January 2011 the number of eligible inmates serving time in state prison could be approximately 650, according to the data. An average per diem cost of \$52.00 is used for inmates housed in a public institution and \$45.53 is used for inmates housed in a private institution. According the Department of Corrections FY 08-09 Budget Report, approximately 7.8% of inmates are housed in private facilities at an average \$45.53 per day. For our estimates the weighted average was used. It should be noted that the health costs associated with maintaining elder inmates is higher, thus the averages used in this analysis are likely a underestimate.

45. Reclassify low level drug possession as a misdemeanor

“Simple possession” (possession without intent to deliver or distribute) of over 20 grams of marijuana in Florida is considered a felony punishable by up to five (5) years in prison according to 893.13(6)(b), *Florida Statutes*. Many states have decriminalized low level marijuana possession. In California, possession of less than 28.5 grams of marijuana is not punishable by incarceration at all, and possession of more than 28.5 grams is considered a misdemeanor punishable by a maximum jail time of six months. Likewise, in New York, once known for harsh “Rockefeller” drug laws, an individual found in simple possession of less than 25 grams of marijuana receives a civil citation for the first two offenses; the third offense is a misdemeanor punishable by up to five days in jail. Possession of 25 grams to 8 ounces (approximately a half-pound)⁸⁷ is a misdemeanor punishable with a maximum sentence ranging from three months to one (1) year of jail time (as opposed to more than one (1) year where the sentence could be served in state prison). In Texas, simple possession of up to 4 oz. (approximately a quarter-of-a-pound) of marijuana is a misdemeanor, punishable by up to one (1) year in jail (as opposed to state prison).⁸⁸

Florida, on the other hand, still imposes harsh sentences for the low level possession of marijuana. Reclassifying the low level possession of marijuana to a misdemeanor would result in considerable savings for the state by keeping non-violent offenders out of the state prison system. Enforcing sentences for low level marijuana possession similar to even the most severe in the aforementioned three states would keep a number of non-violent drug offenders out of state prisons and reduce the annual incarceration cost to the state.

Additionally, 3,036 offenders admitted to prison in Florida during FY 2007-08 were sentenced for cocaine possession, the second most frequent offense committed by new entrants during that fiscal year; the first most frequent offense committed by new entrants was the sale and manufacturing of cocaine. Any possession of cocaine is considered a 3rd degree felony in the state and is punishable by up to five (5) years in prison.⁸⁹ As with punishments for marijuana possession, punishments in Florida are comparatively more severe than in other states.

According to a study by the Florida Senate, the possession of cocaine by first time offenders in Arizona and Pennsylvania is considered a misdemeanor. In Texas, individuals who are sentenced for possession of less than 1 gram of cocaine serve their time in jail as opposed to state prison. Kentucky has also recently taken steps to implement similar reforms by reducing the possession of 1 gram or less to a misdemeanor. According to the report, all of the above mentioned states

⁸⁷ 1 ounce = 28.3495231 grams; so 8 ounces is approximately 226.8 grams or 0.5 pounds.

⁸⁸ The National Organization for the Reform of Marijuana Laws
www.norml.com/index.cfm?wtm_view=&Group_ID=4530

⁸⁹ The Florida Senate Committee on Criminal Justice Issue Brief 2010-312, “Simple Purchase or Possession of Cocaine and Cannabis: Other State’s Sentencing Alternatives to Incarceration.” September 2009.

have also made significant efforts to expand substance abuse treatment and other diversion programs.⁹⁰

There were 1,265 inmates in prison for drug possession who scored fewer than 5 prior record points (likely no significant prior offenses) as of March 2009; if half were diverted, the state would save \$10.4 million annually.⁹¹

Recommendation: The Legislature should amend 893.13(6)(b), *Florida Statutes*, to reclassify low-level marijuana and cocaine possession as a misdemeanor.

46. Expand work release program

Florida's work release programs allow selected (i.e., prescreened as low-risk) inmates to work at paid employment in the community and live at work release centers outside of prison during the last 15 months of their sentence. Housing inmates at work release centers is significantly cheaper than housing them in a regular prison facility. The average cost of housing an inmate at a work release center is \$25.84 less per day than housing them at a regular prison facility.⁹² Expanding the work release program to include additional individuals who are currently on the waiting list could produce significant savings for Florida. The key step to achieve such savings is to incorporate more eligible inmates into the program.

As of December 31, 2009 there were approximately 2,066 individuals housed at work release centers with the overall prison population being 101,438 inmates.⁹³ The average number of inmates housed at work release centers during FY 2008-09 was 2,044.⁹⁴ The maximum capacity of work release is currently set at 4% of the total inmate population by the DOC.⁹⁵ As the data show, current participation in work release programs is nearly 50 percent below maximum capacity.

⁹⁰ Florida Senate Issue Brief 2010-312, "Simple Purchase or Possession of Cocaine and Cannabis: Other States' Sentencing Alternatives to Incarceration." September 2009.

⁹¹ OPPAGA Presentation: "Options to Reduce Prison Costs, Senate Criminal and Civil Justice Appropriations," March 19, 2009. Likewise, according to data provided to Florida TaxWatch by the Department of Correction (DOC), as of December 31, 2009 there were 1,345 inmates serving time for drug possession with no previous convictions.

⁹² Collins Center for Public Policy Report, "Smart Justice: Findings and Recommendations for Florida Criminal Justice Reform," February 2010. 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 inmates in a prison facility is about \$52.00 (even when work release centers are excluded from the calculation).

⁹³ Data provided to Florida TaxWatch by the Department of Corrections Bureau of Research and Data Analysis.

⁹⁴ The Department of Corrections Annual Report: www.dc.state.fl.us/pub/annual/0809/budget.html

⁹⁵ E-mail to Florida TaxWatch from George B. Sapp, Deputy Secretary of Institutions and Reentry at the Department of Corrections. December 15, 2009.

The state would save \$9,431,600 annually for every 1,000 inmates that participate in the work release program beginning in FY 2010-11(compared to remaining in an institution).⁹⁶ This figure does not include long-term savings from eliminating the need to build additional prison bed capacity, nor does it include any upfront costs of expanding the work release program; however, upfront costs would be reduced or eliminated, and annual cost savings would be increased, if participants were placed on electronic monitoring and allowed to live in the community after successfully completing six months at a work release center. The savings calculation also assumes that the cost of maintaining a vacant bed at a regular facility for every inmate participating in the work release is factored into the daily cost per inmate in the program.⁹⁷ Additional savings could be achieved if the bed matching requirement was reduced. Typically, only about 5 percent of the work release population in a given year is returned to a regular facility as a result of disciplinary measures.⁹⁸ Reducing the bed matching requirement from one-to-one to ten-to-one would ensure that there is more than adequate space available to maintain the level of work release participants returned to regular facilities in a given year.

Recommendation: The Legislature should require that the DOC establishes a process that immediately: 1) expands the current capacity of the work release program to include those eligible individuals who are currently on waiting lists to join; 2) ensures that the capacity of the program is set at the maximum sustainable level and reevaluated on a regular basis; 3) expedites the movement of individuals into work release so that the average participating population in each program is maintained as close to full capacity as possible.

47. Expand the Redirection program

The Redirection program is a community-based, family centered alternative to residential juvenile justice commitments. The program began as a way to redirect juvenile offenders with non-law probation violations from residential commitment to lower cost therapy-based community programs and has expanded to serve additional youth, such as non-violent offenders being considered for commitment due to misdemeanors and third-degree felonies.

A 2008 report by OPPAGA found: “Overall, the Redirection Program has operated at a lower cost than residential juvenile delinquency programs and has achieved better outcomes. Youth who successfully completed the Redirection Program were significantly less likely to be subsequently arrested for a felony or violent felony, adjudicated or convicted of any offense, or committed to a residential program or sentenced to prison after treatment than similar youth who successfully completed residential commitment. The Redirection Program has achieved \$14.4

⁹⁶ Any upfront costs of expanding work release are not considered in this analysis. It is also assumed that relationship between costs and savings is linear.

⁹⁷ Currently there is a one-to-one ratio of work release beds to regular prison beds; that is, for every inmate housed at a work release center an empty bed needs to be maintained at a regular facility.

⁹⁸ E-mail to Florida TaxWatch from George B. Sapp, Deputy Secretary of Institutions and Reentry at the Department of Corrections. December 15, 2009.

million cost savings for the state since it began three and one-half years ago.” The report recommended restoring budget cuts made to the program and expanding it into underserved counties and to other populations.

The 2009 Legislation did restore the cuts to the program. The contracted project director estimates the program could serve 10 percent more juveniles under the current framework. Expanding the program could result in much greater savings in the first year.

The OPPAGA report found that the 1,132 offenders that had completed the program through November 2007 save the state an average of \$12,721 per offender. Adding 10 percent more offenders into the system would serve 156 more kids, **savings \$2.0 million annually beginning in FY 2010-11 and recurring thereafter.**

Expanding the Redirection Program into counties currently underserved would allow the program to serve 360 youth in traditional Redirection and provide transition and aftercare services in partnership with residential programs for another 110 youth from those counties currently in residential programs; **the potential cost avoidance would be \$4.1 million annually beginning in FY 2010-11 and recurring thereafter.**

Expanding the redirection program would also produce future cost avoidance because the reduced recidivism would reduce future residential and prison commitments. Expanding the program to serve other populations, such as sexual offender, gang members, and violent offenders, could significantly increase savings.

Recommendation: Expand the Redirection Program to serve 10 percent (156) more juvenile offenders. Also, expand the program into underserved counties, as per the OPPAGA report. The Legislature should also consider adding additional offender populations to the program.

48. Expand programs that reduce recidivism to slow new prison construction

To maintain pace with the projected growth in the inmate population, Florida now has 11 state prisons in various stages of the building process. Expanding currently available rehabilitative and training programs to those offenders who are on waiting lists, or are otherwise eligible to participate in them, could curb the rising inmate population and eliminate the need for the continued expansion of state prisons. There are a handful of programs implemented in Florida Corrections facilities or to incarceration that have been identified to considerably decrease the recidivism rate of participating offenders.

Expand vocational training programs

Vocational training programs are available to inmates serving in the Florida DOC. Prison Rehabilitative Industries and Diversified Enterprises, Inc. (PRIDE) is a non-profit corporation designed to provide job skills training and operates industrial training programs at 20 state corrections facilities throughout the state. Vocational training in prison has been shown to 9

percent.⁹⁹ Expanding programs such as PRIDE and other similar programs could represent significant long-term savings for Florida.

Expand Faith-Based and Character-Based Programs and Trustee System

Faith and character-based programs currently operate in 11 prisons in Florida. These non-state funded and non-denominational programs provide life skills training for inmates and typically take 12 months to complete. Inclusion of individuals in these programs had a slight reduction in recidivism rates in observed Florida prisons. Individuals who participated in faith- and character-based programs were between 5 to 15 percent less likely to reoffend than a comparable group who did not complete such a program.¹⁰⁰ As of July 2009 there were 10,461 pending requests¹⁰¹ to join some form of a faith- and character-based/self-improvement program and total capacity of 5,372 beds.

Expand educational training programs

Educational programs that aim to increase literacy and math skills have been found to have a positive impact on the success of inmates after release from prison. Raising these skills to the equivalent of one additional grade level is expected to decrease recidivism by 3.5 to 4%.¹⁰² Expanding these educational programs could represent additional savings for taxpayers. Basic education or post-secondary education programs, on the aggregate, have been found to reduce national recidivism rates by 7 percent.

Expand drug treatment programs

Drug courts offer addiction treatment in close conjunction with adjudication for non-violent, felony drug offenders; drug courts are already used to divert qualified offenders from having to serve sentences in state prisons; however, some would-be-eligible and repeat offenders are already incarcerated in the state prison system. Drug treatment programs in prison have been found to nationally decrease recidivism by 8.0 and 5.7 percent, respectively.¹

Pre-incarceration mental illness diversion

Many mentally ill individuals arrested for petty crimes ultimately end up in the state prison system at a significant cost to the taxpayers. Pre-incarceration mental illness treatment could be

⁹⁹ Washington State Institute for Public Policy, "Evidence-Based Public Policy Option to reduce Future Prison Construction, Criminal Justice Costs, and Crime Rates," October 2006.

¹⁰⁰ Office of Program Policy Analysis and Government Accountability, "Faith- and Character-Based Prison Initiative Yields Institutional Benefits; Effect on Recidivism Modest" October 2009.

¹⁰¹ Note: The eligibility of these individuals for the requested program has not been determined.

¹⁰² Letter to Florida TaxWatch from former Department of Corrections Secretary James McDonough. December 1, 2009.

used to divert “low-risk” offenders from the state prison system, resulting in possible savings for the state.

Recommendation: The state legislature should work with the DOC and any other relevant entities to establish a process that: 1) expands the current capacity of these programs to include those eligible individuals who are currently on waiting lists; 2) ensures that the capacity is set at the maximum sustainable level and reevaluated on a regular basis; 3) expedites the movement of individuals into these programs so that the average participating population in each program is maintained as close to full capacity as possible.

**Corrections (Justice Reform) Appendix:
Definitions of Violent and Non-Violent Crimes**

VIOLENT	NON-VIOLENT
Offense Group	Offense Group
01-CAPITAL MURDER	28-BURGLARY, STRUCTURE
02-2ND DEGREE MURDER	29-BURGLARY, DWELLING
03-3RD DEGREE MURDER	32-BURGLARY/TRESPASS, OTHER
04-HOMICIDE, OTHER	33-GRAND THEFT, OTHER
05-MANSLAUGHTER	34-GRAND THEFT, AUTOMOBILE
06-DUI MANSLAUGHTER	35-STOLEN PROPERTY
07-CAPITAL SEXUAL BATTERY	36-FORGERY/COUNTERFEITING
08-LIFE SEXUAL BATTERY	37-WORTHLESS CHECKS
09-1ST DEGREE SEXUAL BATTERY	38-FRAUDULENT PRACTICES
10-2ND DEGREE SEXUAL BATTERY	39-OTHER THEFT/PROPERTY DAMAGE
11-SEXUAL ASSAULT, OTHER	40-DRUGS, MANUFACTURE/SALE/PURCHASE
12-LEWD/LASCIVIOUS BEHAVIOR	41-DRUGS, TRAFFICKING
13-ROBBERY WITH WEAPON	42-DRUGS, POSSESSION/OTHER
14-ROBBERY WITHOUT WEAPON	46-ESCAPE
15-HOME INVASION, ROBBERY	48-DUI, NO INJURY
16-HOME INVASION, OTHER	50-TRAFFIC, OTHER
17-CARJACKING	51-RACKETEERING
18-AGGRAVATED ASSAULT	52-POLLUTION/HAZARDOUS MATERIALS
19-AGGRAVATED BATTERY	*Includes large number of sex offenders failing to register
20-ASSAULT/BATTERY ON L.E.O.	**Includes violent crimes
21-ASSAULT/BATTERY, OTHER	
22-AGGRAVATED STALKING	
23-RESISTING ARREST WITH VIOLENCE	
24-KIDNAPPING	
25-ARSON	
26-ABUSE OF CHILDREN	
27-VIOLENT, OTHER	
30-BURGLARY, ARMED	
31-BURGLARY WITH ASSAULT	
43-WEAPONS, DISCHARGING	
44-WEAPONS, POSSESSION	
45-WEAPONS, OTHER	
47-LEAVE ACCIDENT WITH INJURY/DEATH	
49-DUI, INJURY	
53-CRIMINAL JUSTICE SYSTEM*	
54-OTHER**	

Government Cost Savings Task Force

Chapter 4 – Revenue Enhancement Recommendations

- 49. Improve collection of sales tax on remote sales – Streamlined Sales Tax**
- 50. Collecting the tax on online hotel bookings from internet intermediaries**
- 51. Offer a temporary tax amnesty program**
- 52. Adding Department of Revenue tax auditors to increase tax compliance**
- 53. Create a financial incentive to file tax returns electronically**
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Introduction

The State of Florida collects approximately \$40 billion in taxes and fees every year, the largest portion of which comes from the state sales and use tax. As with Florida’s families and businesses, the state’s budget has been hit hard by the recession and falling revenues have significantly contributed to the continuing series of budget shortfalls. Some have called for tax and fee increases to help balance the budget, but Florida cannot tax its way out of a recession. Raising taxes will make economic recovery even harder, not to mention further burdening already struggling citizens and businesses. Enhancing state revenues by improving revenue collection and ensuring compliance with the rule of law will help the state address the budget shortfall without adding undue tax burdens.

Along with the other budget efficiencies and cost savings in this report, the state must make every effort to collect as much as possible of the revenue that is already due and legally owed to the state under the current tax and fee structure. The Florida DOR – the main state agency responsible for administering and collecting state taxes, although many agencies have a role in levying and collecting various revenues – is an effective and well-run state revenue agency; however, there is always a difference between what is owed and what is actually collected, known as the “tax gap.” A tax gap is inevitable and every state and the federal government, as well as every other discernable taxing entity in history, suffers some lost percentage due to a variety of factors. The key is to work toward shrinking the gap.

The tax gap can be minimized by providing DOR with the tools and law changes necessary to both increase voluntary compliance and then to pick up where voluntary compliance ends: auditing and enforcement. Modernizing the state's tax laws can also be of tremendous help. Technological changes, especially the internet, were not contemplated when the state's tax laws were developed. Florida, along with the other states, has a bit of catching up to do.

The following recommendations are offered to help the state ensure the collecting of all it should from the current revenue laws, before taxpayers who are already fulfilling their obligations are asked to contribute more.

49. Improve collection of sales tax on remote sales – Streamlined Sales Tax

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. This situation is costing the state and local governments hundreds-of-millions, if not billions, of dollars annually because few Florida residents know that they are required to pay the sales tax owed on remotely conducted transactions directly to the DOR, and even fewer actually make such payments. While federal action is needed to mandate that all remote sellers collect and remit state sales taxes, the Streamlined Sales and Use Tax Agreement (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.

Despite broad support, legislation to bring Florida fully into the SSUTA has not been enacted. Along with the mistaken perception by some that it is a tax increase (it is actually a tax compliance and collection issue), the main resistance to the legislation has been the negative fiscal impact to the state – a roadblock of serious consequence in the current fiscal climate. While states joining the compact retain general autonomy over what is taxed and what is exempt, they are required to change state laws to adopt such provisions as uniform definitions. The latest available estimates (2005) place the cost of adopting the changes at \$41.5 million to the state; however, the changes would have a positive fiscal impact on local governments of \$41.1 million.

A 2009 Florida TaxWatch report shows that adjusting the formula for sharing sales tax revenues with local governments would make the SSUTA legislation revenue-positive for both the state and local governments. Then, any money remitted to Florida from the voluntary compact would be additional revenue for Florida and its local governments (and this additional revenue has not been included in state fiscal impact estimates of the legislation).

There are already more than 1,100 retailers voluntarily collecting and remitting sales tax revenue to SSUTA member states. The amount these retailers have remitted to the state has grown from \$69 million in 2006 to \$106 million in 2007, and is estimated to be \$167 million in 2008. Since the detailed information on the voluntary vendors is confidential, a reliable estimate of Florida's collections is difficult; however, Florida would be the largest full-member state of the SSUTA and would comprise almost one-sixth of the 23 member states' total population so it is likely a

significant amount of revenue would be remitted to Florida through voluntary compliance. It is not unreasonable to expect collections to grow to at least \$200 - \$300 million by FY 2010-11, especially if Florida joins the compact. **If Florida collects one-sixth on the total (based on its population), it could bring in \$35 million - \$50 million in additional sales taxes in FY 2010-11 and given the rate of growth in internet sales transactions, it is not unreasonable to assume a 15 percent growth per year in collections thereafter.** Moreover, state and local governments have the potential for even more significant revenue if the federal government requires remote retailers to collect and remit the sales and use tax.

Recommendation: Adopt legislation to become fully compliant with the SSUTA in a revenue-neutral manner as recommended by Florida TaxWatch in its April 2009 report *How to Make Streamlined Sales Tax Legislation Revenue Neutral*. The sales tax revenue sharing formula would have to be adjusted to make the necessary changes revenue neutral to state and local governments.

To accomplish this revenue-neutrality, Chapter 212.20(6), *Florida Statutes*, would have to be amended. The following language could be added to paragraph (d)3: “Beginning July 1, 2010, the amount to be transferred pursuant to this subparagraph to the Local Government Half-cent Sales Tax Clearing Trust Fund shall be reduced by \$41.1 million for each fiscal year and that amount shall remain with the General Revenue Fund.”

Since the first-year cash impact was estimated at only -\$17.4 million for the state (+\$17.2 million for locals), the revenue share reduction could be phased-in as follows: \$17.2 million in FY 09-10 and \$41.1 million in subsequent years.¹⁰³

50. Collecting the tax on online hotel bookings from internet intermediaries

Online travel companies that book hotel rooms – such as Orbitz, Priceline, and Expedia – often negotiate a price for the rooms with a hotel as the base booking cost. They then mark up that number and sell the room to a customer for a higher price. Currently, online travel companies pay taxes to the state and counties on the base booking price; but several counties have gone to court asserting that the tax should be paid on the total amount the customer pays, not the base amount.

State sales taxes (the transient rentals tax) and local option taxes (the tourist development tax, the tourist impact tax, the convention development tax, and the municipality resort tax) are levied on the sale of hotel rooms. Internet intermediaries argue that tax should be due only on the amount paid to the accommodation owner (the negotiated rate) and that the “facilitation fee” is not subject to tax because it is not an amount paid to the owner. Some local governments contend

¹⁰³ Note: These amounts are based on the state’s 2005 estimate. A new analysis by the state’s Impact Conference must be completed to bring the estimated fiscal impact up to date.

that internet intermediaries are acting as merchants (in place of the accommodation owner) and are sales tax dealers, so that the total amount of each transaction is taxable.

State law, written years before the advent of the internet, is not clear on this issue. As the use of websites to book hotel rooms grows rapidly, significant implications for government revenue arise. In April 2009, the Florida Consensus Estimating Conference (based on House Bill 579 and Senate Bill 1970) estimated additional revenue of \$30.6 million annually for state and local governments, with \$5.6 million in local revenue specifically. Therefore, **the state would generate an estimated \$25 million in FY 2010-11 and annually thereafter (likely even more as internet hotel booking continues to grow) by clarifying the law regarding the tax obligation of online hotel booking companies.**

Recommendation: Amend Chapter 212 to require on-line hotel booking companies to apply state and local taxes to the full price of the booking, not just the amount paid to the accommodation owner for the right to book the room.

Note: Legislation (SB 156 and HB 335) has been introduced for the 2010 Session to accomplish this change. The legislation also provides an amnesty period for unpaid tax and penalties and interest for taxes not collected before the effective date of the legislation.

51. Offer a temporary tax amnesty program

Tax amnesty programs offer a one-time opportunity for noncompliant taxpayers to satisfy their tax liabilities and avoid criminal prosecution, penalties, and some interest. Interest owed would be reduced by 25 percent to 50 percent, depending on whether taxpayers are already under audit or review by DOR. Taxpayers under criminal investigation would likely not be eligible.

Many taxpayers who are not in compliance with tax laws may be unaware of all their obligations, and changing tax laws magnify the problem. Tax amnesty gives these taxpayers a chance to come into voluntary compliance before the state takes steps to identify them. Improving voluntary compliance is important because it is costly to pursue taxes not paid voluntarily. Florida TaxWatch has recommended, and the state has conducted, other successful amnesties in the past.

The last tax amnesty (in 2003) conservatively brought in \$160 million. Florida's current estimated revenue collections are only slightly higher than they were in 2003. While some revenue generated under this program would have been collected even without the amnesty offer, a \$100 million net gain for FY 2010-11 could be considered a conservative estimate. In 2003, the Consensus Estimating Conference estimated the amnesty would bring in \$75 million and \$25 million would be recurring, yet it brought in many times that amount. **Cost savings for FY 2010-11 could be conservatively estimated at \$100 million and \$100 to \$150 million thereafter.**

Recommendation: The Legislature should authorize a tax amnesty period in FY 2010-11, similar to the one held in 2003.

Note: Generally a tax amnesty period is offered in conjunction with some increase in enforcement effort that acts as an encouragement for non-compliant taxpayers to act prior to the increased enforcement. Increasing the audit rate by increasing the number of DOR tax audits could be such a catalyst, while also being good policy and an important revenue enhancing option on its own.

52. Adding Department of Revenue tax auditors to increase tax compliance

The state has cut a total of 146 tax auditor positions (a 22% decrease) since Fiscal Year 2001-02 from DOR. While the average number of audit positions for the last 20 years was 600 FTEs, as of January 2009, the staffing level was at the all-time low of 482.5 FTEs. The legislature funded an additional 25 auditor positions for the Fiscal Year 2009-10; however, the number of auditor positions is still much below its historical average. During the same period, at least eleven other states have increased the number of auditors available to enhance its collections.¹⁰⁴ Additional auditors will ensure compliance and generate more revenue in the current fiscal year.

The number of tax auditor positions has been reduced significantly since the Fiscal Year 2000-2001. As seen in the table below, the average number of auditor positions was 673 FTEs for the years 1991-2000 and 524 FTEs for the years 2001-2009. With the additional recent hiring of 25 auditors, the current number of FTE auditor positions is 478 FTEs, while the average number for the years 1991-2009 is 606.7 FTEs. In other words, the current number of auditor positions is 195 FTEs below its average level for the years 1991-2000 and 129 FTEs below its average for the years 1991-2000.

Average FTE auditor positions by time period and difference compared to the number of FTE positions in 2009,¹⁰⁵ 1991 - 2009

	Number of FTE Auditor Positions		
	1991-2000	2001-2009	1991-2009
Average	672.9	523.75	606.6
Difference from 2009 FTE (478)	-194.9	-45.75	-128.6

Based on the data from DOR, the table below shows the estimate of cost and revenues for hiring additional number of auditors. After the cost of hiring the new auditors, every 50 new auditors would increase revenue collections by an estimated \$871,000 in FY 2010-11, and nearly \$7.5 million annually in subsequent years.

¹⁰⁴ “Iowa Efficiency Review Report to Governor Chet Culver and Lieutenant Governor Patty Judge”, Public Works LLC, 2009.

¹⁰⁵ Florida Department of Revenue

Estimated cost, annual collections, and net revenues for new auditor positions, FY 2010-11

New Positions	Annual Cost	Annual Collections		Net Revenues	
		First Year*	Second Year and After	First Year*	Second Year and After
50	\$3,082,146	\$3,953,269	\$10,542,050	\$871,123	\$7,459,904
100	\$6,164,292	\$7,906,538	\$21,084,100	\$1,742,246	\$14,919,808
150	\$9,246,438	\$11,859,806	\$31,626,150	\$2,613,368	\$22,379,712
200	\$12,328,584	\$15,813,075	\$42,168,200	\$3,484,491	\$29,839,616

* Based on the info from DOR, it is assumed that half of new positions will be productive within 6 months and the other half within 9 months due to hiring process and training.

The state currently has 0.54 percent audit coverage rate, which means that less than 1 percent of sales tax accounts are being audited. The table below shows the estimated cost and revenue of increasing the coverage rate to up to 3 percent.

Actual and estimated cost and net revenues at given audit rate percentages, FY 2010-11

Coverage Rate	Auditors	New Hiring	Cost	Average collection*	Total Collection	Net Revenues
0.54%**	453	0	-	\$210,841	-	-
1%	839	386	\$28,544,781	\$168,673	\$65,088,959	\$36,544,178
2%	1678	1225	\$75,498,879	\$158,131	\$193,675,029	\$118,176,150
3%	2517	2064	\$127,210,439	\$147,589	\$304,573,881	\$177,363,441

*Due to the diminishing marginal return, the average tax collection per auditor is assumed to drop by 20% for the 1% coverage rate, 25% for the 2% coverage rate, and 30% for the 3% coverage rate compared to the current average collection.

**This row presents the actual current situation; all estimates are based on these collections and costs

The savings for the first year might be up to 50 percent less than estimated amounts for each scenario above due to the cost of hiring process and training.

Recommendation: The Legislature should direct the DOR to increase in audit coverage by adding at least 50 new auditors.

53. Create a financial incentive to file tax returns electronically

Florida allows taxpayers to file tax returns and remit payments electronically, which can be done over the internet, with commercial software, or through a telephone payment system. DOR requires certain taxpayers to file/pay electronically, including businesses that paid more than \$20,000 in taxes in the previous year and companies that file consolidated returns, although taxpayers that meet those criteria can request a waiver.

Since processing electronic returns is less expensive for the state than paper processing, a small fee (\$5) for filing a paper return could be established to encourage electronic filing of tax returns and offset the added cost to processing paper ones. Alternatively, instead of a fee, the sales tax collection allowance could be eliminated for paper filers.

Based on DOR estimates, the assessment would produce \$8 - \$16 million the first year, but as e-filing increases, revenue would decrease by about \$3 million a year. Eliminating the collection allowance would also add \$2.2 million in revenue for local governments in the first year.

Recommendation: The Legislature should either provide a \$5 fee or eliminate the collection allowance for paper filers to provide an incentive for taxpayers to file electronically.

54. Financial institution data match

If a delinquent taxpayer does not respond to the Florida DOR collection attempts, which include several phone calls and notices, DOR may file a tax warrant with the clerk of the court and a Judgment Lien with the DOS.

DOR has the authority to freeze and garnish the bank accounts of Florida taxpayers who have active tax warrants issued against them. DOR is likely to only be aware of the taxpayer's account through which his or her taxes are paid; other financial assets are likely to be unknown to DOR. Taxpayers who are deliberately evading taxes often move their assets between financial institutions. Currently, DOR sends certified letters to banks where the taxpayer may have accounts, a process that is time consuming and costly to both DOR and the financial institutions, as well as not very thorough.

Allowing DOR to perform electronic data matching with financial institutions can help identify other assets quickly, more cost-effectively and more thoroughly. This process should only be done for those taxpayers that already have tax liens in the public record.

Maryland, Kentucky and New Jersey have legislatively established Financial Institution Data match (FIDM) programs and all have cited increased collections. DOR also does FIDM in its CSE program.

The 2007 Legislature authorized a pilot matching project, but the information found was only to be used to evaluate the feasibility of the project and not for collection purposes. One major bank—Bank of America—participated in the pilot, using the parameters of another FIDM program it participated in. The bank supplied no information to DOR except the match rate.

DOR found the pilot very promising and has recommended the Legislature create an FIDM program. The bank matched a file of 39,000 taxpayers that owed the state \$340 million and found matches for 5 percent of them; however, DOR could not find out how much money was in the various accounts, so even if they matched a taxpayer to an account, there was no way of telling if the account had enough funds in it to satisfy the tax liens.

No estimate of potential recoveries has been done. Using the pilot as a guide, if it is assumed that the 5 percent of the taxpayers matched comprised 5 percent of the amount owed (\$17 million) and half of that was able to be recovered through the discovered accounts, the state could have collected \$8.5 million.

DOR believes that developing its own parameters, based on a better understanding of how its data differs from the banks would result in a match rate higher than 5 percent. Including more banks would also increase results.

Although a reliable estimate is difficult, if it is assumed that better parameters and more banks would increase the match rate to 10 percent, and again assuming half of the amount matched was able to be recovered through the discovered accounts, the state could collect \$17 million in FY 2010-11. This program would almost certainly save money every year thereafter; however, collections in later years would be a lower amount than in the first year (because of pent-up demand reflected in the first year estimate).

Recommendation: The Legislature should allow DOR to use electronic data matching with financial institutions for those taxpayers that already have tax liens in the public record for matching and recovery of funds owed to the State of Florida.

55. Increase the number of lottery selling points

Increasing the number of locations where people can buy lottery tickets has the potential to increase the revenues that the Florida Lottery provides to Florida's public education system. Evidence suggests that Florida still has room to add retailers. Data on other state lotteries shows a significant correlation between per capita sales and the number of residents per retailers. A 2008 OPPAGA report stated that the top 12 states in per capita sales averaged one retailer per 1,200 residents while Florida was one per 1,400. In addition, over the last year the state has lost 2,000 small, independent lottery vendors that have closed due to the recession.

To meet these top performing states' market penetration (based on the 2008 data), the Lottery would have to add 1,500 retailers. Because there are so many tourists in Florida at any one time, it is possible that even more retailers could be needed to achieve the same market penetration.

OPPAGA estimated that adding 1,500 new retailers would increase revenues by \$37 million annually. This estimate assumes all 1,500 terminals are active, that each new terminal would generate at least the average weekly net sales per new retailer for 2007, and that there would be 20% lost sales by other retailers as a result of adding new terminals. It also assumes that the transfer rate (to Education) is the current blended on-line and scratch-off ticket transfer rate of 29.6%. These estimates do not include any internet sales.

The Florida Lottery has put considerable effort into increasing retailers and revenue; however, there are some steps that could help add even more.

Vending machines can help increase revenue. Some retailers have indicated they would only become a lottery seller with vending machines. Florida's current 1,000 vending machines constitute a relatively modest investment. New York state has 3,900 vending machines; Massachusetts, 1,850; and Illinois 2,750, according to the North American Association of State and Provincial Lotteries. Additional machines should be considered. Moreover, current law only allows scratch-off tickets to be sold through vending machines but the technology now exists to

sell on-line games, as well. The Legislature and Lottery should also consider placing vending machines with non-traditional lottery retailers, such as restaurants and bars. Lastly, provided the proper precautions for security and prohibiting use of minors can be taken, the Legislature should explore selling lottery products over the internet.

Recommendation: The Legislature should increase the number of Lottery retailers by 1,500 to match the market penetration of the top 12 performing lottery states (one retailer per 1,200 residents). Methods to help achieve this increase include additional use of vending machines, allowing vending machines to sell on-line games (current law authorizes only scratch-off), and adding non-traditional retailers like restaurants and bars.

Alternative Recommendation: Provided the proper precautions for security and prohibiting use of minors can be taken, the Legislature could also explore selling lottery products over the internet.

56. Stop waiving penalties for late corporate filing fees

Every Florida corporation, limited liability company, and limited partnership is required to file an annual report to the Florida Department of State's (DOS) Division of Corporations and remit a supplemental corporate fee of \$87.50. Current law imposes a late fee of \$400 if the supplemental corporate fee is remitted after May 1. In addition, if a corporation fails to file its annual report and is administratively dissolved, a \$600 fee is imposed for reinstatement. However, both fees are waived if the business entity did not receive a reminder notice from the Division. All a business entity must do is to file a waiver saying it did not receive the notice. Over the last three years, the fee was waived for more than 90% of the entities which were charged the late fee. In 2008-09, 136,400 waivers were granted and 45,346 dissolutions were reinstated without a fee.

Reducing the fees, but making them mandatory, would result in more entities meeting their filing obligations and bring in significant added revenue. The Department of State proposed this change as a way to increase compliance with the state's corporate reporting requirements.

DOS data shows that in FY 2008-09, 136,400 waivers were granted and 45,346 dissolutions were reinstated without a fee. The state collected \$6.1 million from the late fee. Assuming the same number of late filers as in FY 2008-09, the state would collect \$30.3 million from a \$200 late fee on 151,712 late filers in 2010-11, an increase of \$24.2 million. The state would also collect \$13.6 million from 45,346 reinstate fees. **These collections would produce total additional revenue of \$37.8 million in FY 2010-11.** The Department estimates there would be 50% fewer late filings in subsequent years, so revenues would decline as businesses improved compliance with current deadlines.

Recommendation: Amend sections 607.153(2)(b) and 607.0122 (13) to reduce the supplemental corporate fee late fee and the reinstatement fee by 50% (\$200 and \$300, respectively) and make the fees mandatory.

Alternative Recommendation: Do not reduce the fees or reduce them by a different amount. For example, reducing the late fee by \$100 instead of \$200 would increase FY 2010-11 revenues by an additional 50%.

57. Indexing tolls on the turnpike

The 2007 Legislature authorized the indexing of tolls to inflation and directed the DOT, including Florida's Turnpike, to index toll rates on existing toll facilities to the annual CPI or similar inflation indicators. Under the new law, toll rate adjustments may be made no more frequently than once a year and must be made no less frequently than once every 5 years. The Turnpike has yet to authorize indexing. Indexing is mandatory by 2012.

Turnpike toll revenues declined by \$28 million (4%) in FY 2008, the first time toll revenues declined since the oil embargo of 1973-74. The forecast of toll revenues for 2009 shows a further decline. The revised long-term forecast caused the Turnpike to cut its capital plan from \$4.3 billion to \$2.3 billion. The Turnpike has a "AA" bond rating but received a "AA-" rating for the approximately \$250 in revenue bonds in May 2009. The rating outlook was revised to "Negative" because of the "expectation that there will likely be erosion in historically robust debt coverage levels over the next several years."

The current forecast predicts turnpike toll revenues of \$656.8 million in FY 2010-11 and \$678.8 million in FY 2011-12, under current rates. Inflation (CPI) from 2007 to 2011 is estimated at 7.6% and from 2007 to 2012 at 10.1%. **Increasing tolls by those growth rates would increase revenues by \$49.9 million in FY 2010-11 and \$68.6 million in FY 2011-12.**

Recommendations: The Legislature should mandate that the turnpike begin indexing tolls in FY 2010-11. Using 2007 as the base should be considered.

Alternative Recommendation: Use 2010 as the base year, which would reduce added revenues to \$10.5 million in 2011 and \$26.5 million in 2012.

58. Medicaid provider assessments

The 2009 Legislature enacted an industry supported Healthcare Provider Services Assessment (HPSA) on nursing homes. This assessment, which draws down federal funds and allows the Legislature to free up general revenue without cutting the services currently provided under Medicaid, is possible because the federal government allows states to impose such an assessment on providers, and the added revenue collected through the assessment can be used to replace the general revenue cuts, thus maintaining the level of service provided by the program.

The state should explore other opportunities to increase Medicaid reimbursements through similar fees on other types of providers, provided the affected industry supports it.

One possibility: Pennsylvania recently imposed a gross receipts tax on managed care organizations (MCOs), applicable to receipts of Medicaid payments from the state. The intent is that the MCOs will recoup their entire tax payment through increased federal reimbursements.

Pennsylvania estimates that it will result in \$300 million in additional Medicaid funding over two years.

If Florida could enact one more HSPA of the magnitude of the one imposed on nursing homes, \$80 million in general revenue could be saved in FY 2010-11 and annually thereafter.

Recommendation: The state should explore other opportunities to increase Medicaid reimbursements through fees on other types of providers, similar to the HSPA imposed on nursing homes. As with that assessment, the affected industry must support it.

59. Implement a cigarette and tobacco audit and compliance system

The excise tax on cigarettes and tobacco, along with the recently enacted \$1 surcharge, brings in about \$1.3 billion in revenue annually. However, the enforcement of that tax still depends on a largely manual audit capability that does not adequately protect this critical revenue stream. The private sector can provide a working inventory management system that tracks the inventory of tax stamps when sold to a distributor/stamper and matches these inventories to their tax returns. Even more importantly, by electronically capturing the information returns filed by the manufacturers upstream from the distributors and the information returns downstream from the distributor such as the retailers or jobbers, the system can detect imbalances that identify potential fraud. The system brackets the numbers reported by the distributor/stamper on their tax return with the information provided by the manufacturers, retailers, and jobbers as a check and balance on the accuracy of the tax return volumes. With the recent tax increase, the state can expect an increase in the amount of fraud and abuse that will be attempted without an adequate protective system.

Improving reporting and management of cigarette and tobacco product taxes will benefit Florida by increasing tax revenues as well as enhancing the accuracy of statistical reports produced by the State for its own use and other agencies.

The Federation of Tax Administrators conservatively set an estimate of 3 percent in tax revenues being lost to evasion. The State of Michigan implemented a tobacco tax stamp inventory tracking system and identified \$3 million in revenue not previously reported during the first 30 days of operation. According to estimates from industry experts (see table below), by moving to an automated inventory control system, the state can expect a 2 to 5 percent increase in revenues by reducing reporting errors by the distributors and fraud. **This translates into added revenue of between \$27 million and \$69 million in FY 2010-11 and annually thereafter.**

**Potential Tax Revenue Increase for the State of Florida (in millions)
FY 2010-11 – FY 2012-13**

	Tax Revenue	2% Increase	5 % Increase
FY 2010-11	\$1,397	\$29.94	\$69.85
FY 2011-12	\$1,379	\$27.58	\$68.95
FY 2012-13	\$1,374	\$27.48	\$68.70

Recommendation: The Legislature should explore competitively procuring a cigarette and tobacco tax audit and compliance system. This should be done on a contingency basis, where payment to the vendor is contingent on a certain minimum level.

Government Cost Savings Task Force

Chapter 5 – Federal Revenue Maximization Recommendations

60. Re-establish and enhance the Grants Clearinghouse Office within the Governor’s Office

61. Contingency contract to drawdown federal funds already earned by Florida

62. Centralized oversight of indirect cost allocation plans

63. Getting Florida’s fair share of federal transportation funding

Introduction

The federal government provides approximately \$20 billion in federal assistance to the state of Florida annually (even before the federal stimulus package). In FY 2009-10, almost 40% of the state’s total direct revenue came from the federal government. While this is a large sum of money, Florida has never fared well in terms of getting a “fair share” of federal aid funds in comparison with other states.

Florida TaxWatch has long reported on Florida’s low ranking among the 50 states in terms of per capita grant receipts and receipts as a percentage of federal taxes paid. For several years, Florida ranked dead last in per capita federal grants received--even the U.S. Territories fared better. One way to look at this is, basically, that some of the money Florida citizens pay to the federal government is subsidizing projects and services in other states.

There has been some improvement in the state’s efforts in recent years, but there is more to be done. A report done last year by Florida’s Chief Financial Officer (CFO) found that Florida still only ranks 45th in the nation in per capita federal grants funding.

Federal grants can be classified as either formula or project grants. Formula grants are allocations of money to states or their subdivisions in accordance with distribution formulas prescribed by law or administrative regulation for activities of a continuing nature not confined to a specific project. There are approximately 185 formula grant programs. Project grants fund specific projects for fixed or known periods of time and can include fellowships, scholarships, research grants, training grants, traineeships, experimental and demonstration grants, evaluation grants, planning grants, technical assistance grants, survey grants, and construction grants. There are approximately 1,000 federal project grant programs.

While Florida fares poorly in most federal grant schemes, transportation funding is a glaring, and costly, example. States collect federal gas tax money and then send it to the federal highway trust fund - the main source of federal money for highway and mass transit projects. The U.S. DOT then returns most of the money to state transportation departments, based on formulas that have always disadvantaged Florida. Florida ranks 44th in return on the gas tax receipts sent to the

federal coffers (87%). Florida receives approximately \$2 billion in federal funding annually, but if the state received a share of federal transportation funding that was equal to the share of federal fuel taxes contributed, Florida would have received \$291 million more (based on 2007 data).

There are many reasons why Florida fares so poorly in federal grants, including historical funding decisions made in Florida as well as factors beyond the state's direct control – such as outdated formulas used in some programs and the politics in Washington. But, with more focus and concentrated effort, the state could successfully attain more federal grant money. Beyond the state's inability to effectively get a “fair share” in some arenas, it also remains that there are additional dollars that the state has already earned but which are not collected.

The amount of money involved is substantial. The CFO's report found that if the state received just the U.S. average per capita amount, Florida would gain \$6 billion annually. **If the \$20 billion in federal assistance the state was receiving before the federal stimulus package was increased by just 1 percent - Florida would receive an additional \$200 million. A 5 percent increase would provide \$1 billion.**

The state simply cannot afford to not spend considerable effort on this issue. Florida TaxWatch offers the following recommendations to help.

60. Re-establish and enhance the Grants Clearinghouse Office within the Governor's Office

In 1995, Florida established a Grants Clearinghouse within the Department of Community Affairs. The purpose of the Grants Clearinghouse was to maximize federal and private grant funding for the State of Florida and its citizens. The Grants Clearinghouse was charged with actively seeking grant opportunities; assisting state agencies in applying for grants; and acting as a single point of contact for all grants management and reporting.

In 2002, the Clearinghouse was moved to the Department of Environmental Protection. A recent report by the Florida CFO found that this iteration of the office merely addresses the grant review processes and further, there no longer exists an office in Florida that “proactively keeps track of upcoming grants and federal funding opportunities and promoting these grants to the appropriate state agencies.” The Legislative Committee on Intergovernmental Relations (LCIR) reported that “Florida may not be aggressively pursuing all federal grant opportunities.”

One of the CFO's recommendations was to move the statutorily required State Clearinghouse for grant approval from the Department of Environmental Protection to the Governor's Office of Policy and Budget (OPB), and to expand membership to include the DFS and the LCIR.

Each year, Florida misses out on hundreds of millions of dollars in grant funding opportunities because of a lack of information about available grant resources. Furthermore, Florida's grant “capture” efforts are decentralized with very little or no coordination and collaboration between agencies and potential grant recipients. In Iowa, a pilot program to identify and secure federal grants was established and helped to secure \$32 million for the state. Iowa is increasing the

number of Full Time Employees (FTE's) for this program as the cost of additional staff pays for itself and is expected to increase state revenue by \$100 million over five years.¹⁰⁶ Florida could vastly improve its track record and receipt of federal and private grant funds by reestablishing a fully operational, stem-to-stern, Grants Clearinghouse to actively coordinate Florida's grant "capture" efforts.

Recommendation: The Legislature should amend Section 216.212(1), F.S., to incorporate the recommendation made by DFS to move the Grants Clearinghouse to OPB, and to expand membership to include DFS and LCIR. The Clearinghouse should also be directed to provide assurances that the state is participating in all eligible grant programs. These assurances could, at least in part, be achieved by comparing participation in federal grant programs by other states with Florida, which would allow the Clearinghouse to ascertain whether Florida is taking full advantage of all available project grant opportunities.

61. Contingency contract to drawdown federal funds already earned by Florida

Currently, there are federal dollars that the state has already earned but are not collected. In 2003, Florida TaxWatch recommended that the state collect the federal revenues that the state has earned, but has not applied for. These monies do not require additional spending or commitment by the state. 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 no out-of-pocket costs to secure the funds. There likely remains, however, hundreds-of-millions of dollars of federal money to which Florida is legally entitled and which could be collected without expending any additional state revenues if the agencies dedicate appropriate effort to achieve.

The state should either undertake a similar 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 and 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. **If the state executed a similar effort and improved it by the steps listed below, the state should be able to collect at least \$150 million in FY 2010-11. Since most of the money will be recurring, if the project only identifies an additional \$50 million next year, \$550 million would be recovered over three years.**

Recommendation: Every practical effort should be taken to collect all the federal funds that are due Florida. The state should either undertake an expanded contract similar to the one executed

¹⁰⁶ "Iowa Efficiency Review Report to Governor Chet Culver and Lt. Governor Patty Judge", Public Works LLC, 2009.

in 2003 or ensure the successful collection of this money in-house. If this effort is contracted again, the vendor should be obligated to meet a certain target (for example \$50 million) before the state makes payment, and then, the payments should come out of the successful recoveries. With the alternative, in-house method, in order to encourage the agencies to focus appropriate attention and effort, the Legislature should both require the agencies to collect this revenue and provide incentives for the agencies to maximize or capture such revenue.

This contract or in-house project should be a top priority of the newly re-established Grants Clearing House (see Recommendation #1).

62. Centralized oversight of indirect cost allocation plans

Eligibility for many federal formula grants is contingent upon submission of an indirect cost allocation plan by the lead state agency. Indirect cost allocation plans identify all expenses that contribute to achievement of the objective of the federal program to include indirect expenses that are not dedicated to the program. Indirect cost allocation plans are developed in accordance with federal requirements (OMB A87) and reviewed and approved by an assigned federal agency. The reviewing federal agency will identify expenses that are disallowed, but will not identify potential areas where states are not realizing all eligible expenses.

The role of the State Clearinghouse should also be expanded to include the review and approval of state agencies' indirect cost allocation plans prior to submission to the appropriate federal agency for review and approval. Requiring state agencies to submit proposed indirect cost allocation plans to the State Clearinghouse will help ensure that all eligible expenses, including those expended by other state agencies and local governments, are identified; and identified expenses are appropriately allocated among indirect and direct costs. This review will include providing policy interpretations and assistance to ensure effective and efficient implementation. This review should help to ensure that indirect and direct costs identified for each federal program makes certain that the state is maximizing its federal funding for each of its formula grants.

Recommendation: The role of the State Clearinghouse should be expanded to include the review and approval of state agencies' indirect cost allocation plans prior to submission to the appropriate federal agency for review and approval.

63. Getting Florida's fair share of federal transportation funding

While Florida fares poorly in most federal grant schemes, transportation funding is a glaring, and costly, example. It used to be the case, last noted in 1989, that Florida kept a transportation advocate permanently located in Washington, D.C., working "one end of the pipeline" while another coordinator was based in Tallahassee to work "the other end of the pipeline." Under this structure, some improvement in the state's funding was achieved. Having a professional and seasoned lobbyist based in Washington, D.C., to secure additional funds for Florida may be a prudent tactic, given the historically low return on investment.

Florida has a D.C.-based office with the purpose of increasing communication between the state and the federal government. One of the objectives of the office is to help maximize federal funding. The reinstated transportation advocate could be housed in the D.C. office. This particular reform could be done in tandem with the recommendations to improve Florida's performance in federal funding that were contained in Chief Financial Officer Alex Sink's recent report to the Legislature. Currently, Congress is debating a multi-year transportation funding bill that may serve to make this a longer-term recommendation. **If Florida moved from the current 87% return to only 90%, federal transportation funding would increase by \$61.5 million annually.**

Recommendation: Florida could reinstitute the model once employed by the Florida DOT where a qualified, knowledgeable, and prepared transportation advocate was permanently located in Washington, D.C., while another coordinator was also based in Tallahassee. This team would work with DOT, the Grants Clearinghouse, and the D.C. office to maximize Florida's share of federal transportation funding.

Government Cost Savings Task Force

Chapter 6 – Fraud Reduction Recommendations

- 64. Implement stricter applicant eligibility screening**
- 65. Conduct durable medical equipment audits**
- 66. Outsource recovery of aberrant Medicaid claims (i.e., fraud, waste, and abuse expenditures)**
- 67. Increase penalties for Medicaid overbilling**
- 68. Implement a point-of-sale time and attendance verification system to reduce overpayments for child care services**
- 69. Implement automated pharmacy prior authorizations**
- 70. Conduct audit to ensure only eligible dependents receive health insurance**
- 71. Increase corporate fraud detection in Managed Care Organizations**

Introduction

Florida’s Medicaid program is the fourth largest in the country, covering more than 2.5 million Floridians and costing more than \$17.5 billion in fiscal 2008-2009 (including state and federal funds). One of the main problems with Medicaid is fraud, waste, and abuse, collectively called “aberrant claims” (though possibly better called “abhorrent claims” for their natures as gross misappropriations of taxpayer dollars). These problems are not unique to Florida; Medicaid fraud is an issue throughout the United States and, like in Florida, a multibillion problem in the other large states. It has been a large and growing problem for years, and no one seems to have a firm handle on how much there is or how to stop it. The CBS news program *60 Minutes* recently reported on the \$60 billion-a-year Medicare fraud industry, specifically focusing on the FBI’s efforts targeting fraud in south Florida. The United States government recently reported that Medicare fraud totals \$47 billion accounting for 12.4 percent of all Medicare expenditures. The same report notes that 9.6 percent of Medicaid claims are improper, amount to \$18.1 billion per year nationally.

Although no one knows the precise figures on aberrant claims (by nature, if we knew precisely which claims were aberrant ones, then we would be able to stop them), “estimates of Medicaid waste, fraud, and abuse range from 5% to 20% of total Medicaid claims.” Given the size of the Medicaid program, the figure could be well into the billions of dollars annually.

The first six following recommendations to reduce fraud, waste, and abuse in Medicaid are based on successful programs in other states, experts’ opinions on what may help root out and prevent fraud, and existing services to catch and deter aberrant claims not currently being used by

Florida. The final two recommendations address related issues of ineligible health insurance recipient claims and the overcharging of the state by child care providers.

64. Implement stricter applicant eligibility screening

Implementing an electronic matching process (tied to national database information) for Medicaid eligibility determination would generate significant savings opportunities for the state by reducing payments for healthcare services provided to individuals who are not eligible for Medicaid (i.e., ineligible Medicaid recipients).

A screening system can reduce fraud by identifying ineligible applicants at enrollment before benefits have been assigned and payments have been made. Data resources such as identity and address information, household composition, and financial status are gathered utilizing browser-based tools to validate the self-reported information submitted by applicants. A comprehensive screening system would provide state officials with the information they need to approve or refuse eligibility with confidence and justification.

Denial of ineligible claims represents significant savings to Florida, as just 74 indictments issued in 2007 in Miami alone uncovered over \$400 million in fraudulent billings to Medicare. Although Medicare is entirely funded by Federal tax dollars, this case provides insight into the vast amounts that Florida could be losing from Medicaid payouts to ineligible recipients. Assuming that 2 percent of a program's total beneficiaries are actually ineligible (a very conservative estimate given that experts estimate that the typical state averages between 3.5% - 5%) then within Florida Medicaid's population of approximately 2.5 million beneficiaries,¹⁰⁷ an estimated 50,000 individuals could therefore be determined ineligible and claims made on their behalf would be appropriately denied. Florida Medicaid's average service usage for Fiscal Year 2008–2009 was approximately \$7,000 per beneficiary, although distribution of usage is not linear. Based on FY 2008-09 expenditure data, if only 10 percent of average service usage for the 2 percent of beneficiaries estimated to be ineligible were appropriately denied benefits through eligibility screening, the Medicaid program would save more than \$35 million,¹⁰⁸ **which would result in a savings to Florida of approximately \$11.3 million annually beginning in FY 2010-11** (not including implementation costs or cost sharing if provided through outsourcing).¹⁰⁹

¹⁰⁷ Although exact number of beneficiaries is difficult to pin down, there are approximately 2.5 million beneficiaries. According to AHCA website, (<http://ahca.myflorida.com/Medicaid/about/about2.shtml>, accessed on January 21, 2010) "Florida's average monthly eligibles is currently approximately 2.4 million Medicaid recipients." According to the "Number of Medicaid eligibles by program-group by county as of 12/31/2009," there were 2,679,941 eligibles in December 2009 and 2,727,362 eligibles in November 2009 – therefore, the 2.5 million is likely an underestimate.

¹⁰⁸ Assuming 2 percent of 2.5 million beneficiaries (50,000 individuals) multiplied by the average annual service usage (\$7,000) equals \$350 million, 10 percent of which is \$35 million.

¹⁰⁹ This figure is based on the FY 2009-10 Federal Medical Assistance Percentages (FMAP) with the American Recovery and Reinvestment Act (ARRA), Public Law 111-5, adjustment, meaning that Florida saves 32.36 percent of all Medicaid program expenditures. ($\$35 \text{ million} * 0.3236 = \$11,326,000$).

Recommendation: The Legislature should direct the AHCA to implement an applicant eligibility screening and benefit determination program, either internally or by contract with a private provider.

65. Conduct durable medical equipment audits

Estimated expenditures show that the Florida Medicaid program will spend \$91,338,452 in FY 2009-10 on “durable medical equipment” (DME).¹¹⁰ As with other aspects of Medicaid, the annual DME billings likely include some “aberrant claims” (i.e., fraud, waste, and abuse), such as billings for services that were never administered or billings that violate the provider agreement. Implementing a durable medical equipment audit process would help identify such claims and could significantly reduce the cost of the Medicaid program.

Medicaid claim audits are not unique to Florida’s Medicaid program or to DME services. According to a leading service provider, the distinguishing factor of a successful audit process is that a qualified medical professional conducts chart reviews at the actual provider site. This on-site approach is less burdensome on the provider than typical off-site or “desk” audit reviews, which require the provider to photocopy reams of documentation for the auditors. In contrast, on-site reviews simply require access to the files and a small workspace to conduct the review.

The on-site approach also allows for a full review of each page of the patient chart. The auditor can easily compare doctors’ orders, nurses’ notes, compounding records, and dispensing records to the amount billed to the plan.

Specific examples of the success of DME audits in other states provide useful insight into the potential value of this process for Florida. DME audits have uncovered such practices as a

Under current federal law, the ARRA adjustment expires on December 31, 2010. The FMAP for Florida for Federal Fiscal Year 2010 (October 1, 2009 – September 30, 2010) without the adjustment was 54.98 percent. (Federal Register, November 26, 2008 (Volume 73, Number 229) [Page 72051-72053], available at <http://aspe.hhs.gov/health/fmap10.htm>). The savings estimate for this recommendation was calculated using the ARRA adjusted FMAP to ensure the estimate is conservative – if the federal share (FMAP) decreases and the state share increase, the savings to the state will be even higher.

On November 19, 2009, the Social Services Estimating Conference “adopted revised Federal Medical Assistance Percentage (FMAP) levels for the state fiscal years through the forecast period. The adopted FMAPs are as follows: FY 2009-10 at 67.64%; FY 2010-11 at 61.54%; FY 2011-12 at 56.51%; and, FY 2012-13 at 57.31%.” (Social Services Estimating Conference, *Executive Summary* (November 19, 2009), available at <http://edr.state.fl.us/conferences/medicaid/medsummary.pdf>; the official state FMAP estimate (Social Services Estimating Conference, *Federal Medical Assistance Percentage (FMAP) Forecast adopted November 5, 2009*) is available from the Florida Legislature’s Office of Economic & Demographic Research at <http://edr.state.fl.us/conferences/medicaid/fmap.pdf>.)

For more information about the FMAP formula, see CRS Report for Congress RL32950 (by April Grady), “Medicaid: The Federal Medical Assistance Program (FMAP)”, February 2, 2009; available on the web at: http://assets.opencrs.com/rpts/RL32950_20090202.pdf.

¹¹⁰ Florida Agency for Health Care Administration, “Florida Medicaid” presentation by Roberta K. Bradford to the Senate Health and Human Services Appropriations Committee, February 4, 2010, p. 13; available at http://ahca.myflorida.com/Medicaid/deputy_secretary/recent_presentations/florida_medicaid_020410.pdf.

provider that frequently included the leasing of durable medical equipment in perpetuity. Whether it was a set of \$50 crutches, or a \$1,500 infusion pump, the company could lease the equipment for a monthly rate, but would bill well beyond the point when the insurer had met the purchase price (or agreed “cap”). In one instance, an infusion pump valued at \$2,500 was leased at the monthly rate of \$720. At the time of the audit, payments of over \$10,000 were identified for the infusion pump. Upon discovery through the audit, the provider repaid the overcharges.

DME audits are especially important in Florida; national media reports have explicitly shown that DME billings have become excessive in some parts the state, as noted in a *60 Minutes* investigative report on Medicare fraud perpetrated by DME providers in South Florida.¹¹¹ Specifically reported was a tiny medical supply company that billed Medicare almost \$2 million in July and, while *60 Minutes* was there in August billed \$500,000; but there was never anybody inside the company and phone calls were never returned. One interviewed DME ‘provider’ indicated that he never provided any service; he simply purchased readily available recipient billing ID’s and billed for unfilled services on their behalf.

Also, the state can take a proactive approach to ensuring that the most blatant violators are removed as providers of medical services under the program. Since Medicare (which is federally administered and funded) shares many of the same issues that Florida Medicaid is facing with this service category, these audit efforts could be coordinated with the Medicare program and referrals from either party should be targeted by the other program.

Given the annual DME spending of more than \$90 million, every 1 percent fraud reduction would yield more than \$900,000. A leading audit service provider uses 8 percent in estimating savings based on DME spending: for the Florida Medicaid program in FY 09-10, that would produce a savings of \$7,307,076. Assuming a 20% revenue sharing arrangement with the outsourced provider (to avoid any upfront cost to the state), **the state could achieve a savings of \$5.8 million in the first year.**

Whatever the percentage of aberrant claims identified or the revenue-sharing ratio, the savings for Florida are likely to be significant given the increasing utilization of DME services in medical care and the recent revelations of the prevalence of unscrupulous billing practices.

Recommendation: The Legislature should direct the AHCA to explore implementation of an on-site durable medical equipment audit program, either internally administered or outsourced through a revenue sharing arrangement (to avoid upfront costs).

66. Outsource recovery of aberrant Medicaid claims (i.e., fraud, waste, and abuse expenditures)

Modern technology can be used to identify aberrant Medicaid claims, which can help reduce the overall cost of the program. Analytic tools and advanced detection system using artificial

¹¹¹ Aired October 23, 2009.

intelligence are available that can help identify and stop aberrant payments. Furthermore, these systems are available to the state through a no-risk contracting model.

There are a number of vendors offering advanced analytic tools designed to ferret out fraud, waste, and abuse within the various aspects of the Medicaid program. An array of fraud algorithms contain metrics that target a comprehensive set of claim types and categories of service: 1) physician services, 2) facility services, 3) pharmacy services, 4) dental services, 5) laboratory and x-ray services, 6) durable medical equipment and medical supplies, 7) services after death, 8) Medicare/Medicaid coordination of benefits, 9) Medicaid transportation services, and 10) long-term care services.

The following table shows states that have used such models and the savings they have realized:

State	Years Worked	Cost Savings (in millions)
Alabama	2004 – 2007	\$7.8
Colorado	2003 – 2007	\$15.5
Kentucky	1998 – 2003	\$25.0
Missouri	2004 – 2006	\$3.5
New Mexico	2004 – Present	\$5.1
Oregon	2006 – Present	\$1.5
Washington	2000 – Present	\$60.0
West Virginia	2002 – Present	\$21.2
Wisconsin	2006 – Present	\$2.3

Fraud and Abuse prevention vendors who specialize in targeted algorithms can apply hundreds of unique fraud algorithms to ferret out abusive and potentially fraudulent activities. These contracts are available on contingency or through a fixed-fee-with-guarantee structure (which provides a fixed-fee price to vendors, but contains guarantees that impact those fees, pending the delivery of recovery targets).

In 2008, OPPAGA recommended AHCA develop or contract with a provider for a sustainable advanced detection system using artificial intelligence; Florida TaxWatch made a similar recommendation in January 2009 in *Constructive Ideas to Help Florida Address the Budget Shortfall*. Artificial intelligence detection systems are programmed to learn normal billing patterns and identify aberrant billing activities. The systems can also identify collusion between provider networks.

Both Texas and California also use an artificial intelligence system to detect aberrant claims. California’s Medicaid program requires its fiscal agent to use artificial intelligence detection systems at no additional cost to the state. California then shares 10 percent of the overpayment

recovered with the fiscal agent.¹¹² Florida should consider a similar arrangement with a potential fiscal agent. For every 1 percent reduction in the overall cost of the program, Florida saves approximately \$50 million annually. Assuming an arrangement similar to California (with 10 percent share of recovery) from a competitively bid contract for private vendors to monitor instances of Medicaid overpayment, **the state would save \$22.5 million annually with a 0.5 percent reduction in total program cost; a 1 percent reduction would yield approximately \$45 million.**¹¹³

Recommendation: The Legislature should statutorily direct DMS to issue a competitively bid contract for a private vendor(s) to monitor Medicaid and identify instances of overpayment.

67. Increase penalties (minimum fines) for Medicaid overbilling

Fines are an important deterrent against providers overbilling the Medicaid program; however, OPPAGA has found that “the fines being levied represented only a small percentage of provider overbillings, and thus were not high enough to deter providers from overbilling.”¹¹⁴ Fines are financial penalties imposed on providers and can be in addition to corrective action plans or other sanctions. Increasing the fines for Medicaid overbilling would defer the cost of recovering the unnecessarily expended funds and deter providers from incorrectly billing the state.

An OPPAGA analysis of the imposition of fines for overbilling for a two-year period revealed that more than 70 percent of violators were required only to repay the overbilling (and acknowledge their violation) with no fine imposed. Of the remaining incidents where a fine was imposed, OPPAGA concluded that “these fines were small relative to the identified overpayment.”¹¹⁵ In total, the analysis found that AHCA levied only \$363,593 worth of fines for \$8.3 million in provider overbilling over the two-year period.¹¹⁶

The Arizona Medicaid program fines equal to twice the amount of the overpayment plus up to \$2,000 per fraudulent claim submitted. If Florida were to follow this model, **the state would collect more than \$8.5 million dollars in fines annually beginning in FY 2010-11.**¹¹⁷ Additionally, the fines will act as a deterrent to overbilling, which will produce savings.

¹¹² Office of Program Policy Analysis & Government Accountability and Office of the Florida Legislature, “AHCA Making Progress But Stronger Detection, Sanctions, and Managed Care Oversight Needed,” February 2008, Report No. 08-08.

¹¹³ Estimates of state generated savings based on FY 2007-08 breakdown of funding: \$4.8 billion of \$16.2 billion in Medicaid expenditures came from General Revenue.

¹¹⁴ Office of Program Policy Analysis & Government Accountability and Office of the Florida Legislature, “AHCA Making Progress But Stronger Detection, Sanctions, and Managed Care Oversight Needed,” February 2008, Report No. 08-08. p. 3.

¹¹⁵ *Ibid.* at 4.

¹¹⁶ *Ibid.*

¹¹⁷ OPPAGA cited 749 providers that overbilled Medicaid \$8.3 million over a two-year period; assuming half of the providers in each year and conservatively assuming that each provider would have been sanctioned only once for

Recommendation: The Legislature should direct AHCA to establish fines based on the higher of a minimum dollar amount or a set percentage of a provider's identified overbilling.

68. Implement an automated point-of-sale utilization verification system for child care providers

Florida pays more than 12,000 child care providers for services provided to more than 180,000 children. Implementing an automated point-of-sale utilization verification system rather than relying on provider self reporting of attendance could reduce the incidence of aberrant payments. An automated system could reduce 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 systems or other point-of-sale verification method. Such automated utilization verification systems are available from several private contract services and are in use in other states. The program could be implemented quickly.

A similar programs are currently operational in Oklahoma and Indiana, and according to one industry provider, these services have generated program savings of nearly \$25 per child in care per month in Oklahoma where used of the technology is required by all providers. Oklahoma made changes in their child care rules to maximize the savings that could be obtained 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 in Oklahoma is a product of both the technology and the strengthened rules which require providers to utilize the technology. The use of the technology without strong supporting rules would result in fewer savings.

Other states currently implementing this technology include Texas, Colorado, and Louisiana.

Assuming a conservative savings estimate of \$10 per participant child, the total estimated savings would be \$1.8 million per month; assuming 20 percent cost sharing arrangement with the automated verification system provider, **the estimated savings to the state in FY 2010-11 and annually thereafter would be more than \$17 million.**

Recommendation: The state should implement or contract for an automated point-of-sale utilization verification system.

69. Implement automated pharmacy prior authorization system

Prescription drugs are the fastest growing component of overall U.S. healthcare spending. To control the rising costs of prescription drugs, government and private companies are implementing prior service authorization requirements for many drug products. Unfortunately,

\$1,000 (\$374,500 per year) and 200 percent of the value of the overbilling (\$8.3 million per year). The estimate does not include the overbilling amount itself, which would be shared with the federal government.

the traditional prior authorization approach creates an administrative burden in an attempt to curb the prescription of high-cost medications.

By electronically managing service authorizations before dispersal of the drugs at the point-of-sale, Florida's Medicaid program can ensure that only eligible members are receiving correct medication. Essentially, prescription claims are automatically screened at the pharmacy using evidence-based and recipient-specific criteria before the prescription is filled; if the order is appropriate, the pharmacist is sent a message that the prescription is approved to dispense.

The automation of prior service authorization transactions reduces the administrative requirements of operating the program and increases the speed with which authorization determinations are made. Depending on criteria, 60 to 90 percent of all prior service authorization transactions can be automated.

According to an industry expert, savings from implementing an automated pharmacy prior authorization processes have ranged from 4 percent to as high as 20 percent of the total amount that the Medicaid program annually spends on prescription drugs; assuming only minimal potential effectiveness (2-4 percent) **the range of saving could be between approximately \$12.5 million and \$25 million for FY2010-11.** The difference in result is determined by how aggressively a state pursues and administers the program and how many drugs and which drugs are prior authorized.

Recommendation: The Legislature should explore the possibility of implementing an automated pharmacy prior authorizations system to reduce the cost of prescription drugs purchased through the Medicaid system.

70. Conduct audit to ensure only eligible dependents receive health insurance

Florida offers health insurance coverage for eligible dependents of state employees; however, based on evidence from other states, Florida may also be providing health insurance to ineligible individuals who are inappropriately claimed as dependents. While current procedures appear to provide adequate assurances that eligible dependents are accurately identified for newly hired employees, changes in dependence status may not be adequately tracked. For example, unreported changes in marital status can result in dependents losing eligibility for state health insurance coverage. Ensuring that state health insurance coverage is limited only to eligible individuals would generate immediate and recurring cost savings for the state.

DMS has conducted an analysis of potential savings in health care costs from dependence audit. The results of this analysis indicate that 2-4% of currently identified dependents may be ineligible. Removal of these ineligible dependents would result in an annual savings of between \$6.5 million and \$13 million per year.

Based on preliminary estimates from an ongoing dependency audit in New Jersey, DMS's savings estimates may be conservative. The initial results from the New Jersey audit indicate that the state's 224,000 covered employees could have 10,000-15,000 ineligible dependents.

Based on the New Jersey results, Florida may be able to realize a savings of approximately \$30 million per year if all ineligible dependents were removed. The state of Iowa found that health costs could be reduced by two to ten percent by conducting an audit on current enrollees and identifying ineligible dependents.¹¹⁸

The estimated cost to contract for a dependency audit is \$1.9 million-\$3.3 million; however, DMS is capable of conducting the audit in-house and the upfront costs would be recouped within the first fiscal year through reduced health care costs. Also, an amnesty period prior to the audit would likely produce significant savings without any upfront costs.

Although the amount of fraud is unknown and the upfront cost is dependent on means of implementation and effectiveness of an amnesty period, **a dependency audit could generate \$5 million - \$30 million in immediate and recurring savings for the state.**

Recommendation: The Legislature should direct DMS to publicize an amnesty period for state employees to make changes to declared dependents and then conduct a full dependency audit.

71. Increase corporate fraud detection in managed care organizations

OPPAGA noted in its February 2008 report that the Agency for Health Care Administration (AHCA) should expand its efforts to monitor for potentially abusive or fraudulent corporate practices. AHCA currently monitors Medicaid Managed Care Organizations (MCOs) for marketing irregularities and has begun to assess the validity of plans' provider network; however, AHCA should also develop procedures to monitor Medicaid MCOs to ensure that they provide high quality and medically necessary services to beneficiaries and that Medicaid managed care dollars are spent wisely.

Recommendation: The Legislature should take further steps and require AHCA to use the medical loss ratio information which is already being reported to enforce minimum standards. AHCA should be directed to establish a minimum medical loss ratio for all Medicaid HMOs, such as in place for behavioral health sciences. The plans that do not meet the medical loss ratios would be required to reimburse such losses to Medicaid.

¹¹⁸ "Iowa Efficiency Review Report to Governor Chet Culver and Lieutenant Governor Patty Judge", Public Works LLC, 2009.

Government Cost Savings Task Force

Chapter 7 – Healthcare Recommendations

- 72. Consolidate and/or outsource pharmaceutical repackaging**
- 73. Expand the use of Section 340B purchasing for pharmaceuticals**
- 74. Find other funding sources for services to undocumented immigrants in state mental facilities**
- 75. Require all classes of employees to pay same premiums for health insurance**
- 76. Improve cost-sharing arrangement by replacing copayment plan with coinsurance plan**
- 77. Create a health insurance stipend for state employees**
- 78. Provide incentives based on controllable wellness indicators**
- 79. Reduce state insurance costs by reorganizing the state employee health insurance system**
- 80. Medicaid waiver program administrative service support**

Introduction

Healthcare and human services dominate the state budget, accounting for approximately one-third of all general revenue expenditures; however, ensuring the health of citizens, especially the most vulnerable – the old, the young, the disabled, and the infirmed – is one of the most vital, critical, and core functions of government. This section focuses on a few areas within the healthcare budget where efficiencies would produce savings without reducing services to Floridians.

This chapter also focuses on the state’s employee health insurance system. In FY 2008-09, Florida spent over \$1.2 billion on health insurance for its employees. One portion of these recommendations directly deals with modernizing state employee health benefits. These recommendations will bring the state into the main stream. As with other areas of the budget, incorporating real world business practices is no longer a luxury but a necessity. The state has been insulated from the realities of the changing market and modernization is long overdue.

A key part of modernization is to increase flexibility within the insurance system by broadening the portfolio of health insurance choices. Another idea that underlies these recommendations is the introjections of market principles and incentives for improved employee health. The employees are the best ones to determine their coverage needs and their willingness to pay for additional benefits, or to bear the costs of added risk to the system. Empowering state employees with options to respond to their needs and what they are willing to pay will result in better quality of life, health care outcomes, and cut costs.

Additional recommendations in this section address reducing Medicaid expenditures by improving program operation and administration, and applying available solutions and creative ideas to reduce the cost of providing healthcare-related services that can save taxpayer dollars and allow Florida to focus scarce resources on critical functions.

72. Consolidate and/or outsource pharmaceutical repackaging

OPPAGA noted in a March 2009 Research Memorandum that the Agency for Persons with Disabilities (APD), the Department of Juvenile Justice (DJJ) and the DOC have separate contracts to dispense drugs at multiple facilities across the state. The costs for these contracts all exceed the unit cost for the same activity performed by the Department of Health's (DOH) central pharmacy. OPPAGA recommended either in-sourcing the function with DOH or outsourcing for less than is currently being paid.¹¹⁹

Several agencies in Florida purchase pharmaceutical drugs through a contract with a large group purchasing organization, called Minnesota Multistate Contracting Alliance for Pharmacy (MMCAP), which then contracts with Cardinal Health, Inc., which is the wholesale drug supplier for these agencies' statewide drug purchases. This contract is managed through DOH's Central Pharmacy on behalf of these agencies. DOC currently has a contract with a private company for drug repackaging.

The OPPAGA found that the state could attain cost savings by consolidating all drug repackaging under DOH's Central Pharmacy or a private vendor. The OPPAGA report compared the dose and script dispensing fees paid by APD with DOC and DJJ contracts for repackaging and filling prescriptions with DOH's Central Pharmacy and stated that consolidation under DOH could be more cost-effective option. DOH could expand its drug purchasing through the federal 340B pricing program for eligible programs to save the state money.

Currently, DOC has contracts for repackaging services so the primary savings would be for APD and DJJ. APD estimates that by consolidating its purchasing of pharmaceuticals with DOH, and utilizing DOH's pharmacy they could save \$488,258.¹²⁰ Based on a presentation by DJJ in October 2009, the estimated savings at that agency are \$1.5 million.

Consolidating all state drug repackaging services through DOH, either at their facilities or contracting with an outside vendor, **would save up to \$2 million annually beginning in FY 2010-11.** This amount will both pay for the service and save the state money.

¹¹⁹ Office of Program Policy and Government Accountability of the Florida Legislature, "RESEARCH MEMORANDUM: **Feasibility of Consolidating Statewide Pharmaceutical Services,**" March 3, 2009, www.oppaga.state.fl.us/MonitorDocs/Reports/pdf/Feasibility_of_Consolidating_Statewide_Pharmaceutical_Services.pdf

¹²⁰

Recommendation: The Legislature should require all agencies to consolidate their drug repackaging services under DOH.

73. Expand use of Section 340B purchasing for pharmaceuticals

The 340B Drug Pricing Program was established in 1992 and limits the costs of covered outpatient drugs for federal purchaser and for certain federal agency grantees.¹²¹ 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. Maximizing utilization of Section 340 purchasing for other state drug purchases would produce significant immediate and recurring savings.

Although state and local government entities are generally not directly eligible to participate in the Section 340B purchasing program, one of the primary means these entities can reduce drug expenditures for vulnerable populations is through partnerships with Section 340B qualifying entities. Partnerships with qualifying entities are increasingly used by states to provide reduced price Section 340B pharmaceuticals to mental health facilities, nursing homes, and prison populations. For example, the Texas prison system partnered with a disproportionate share (DSH) hospital several years ago to provide the state corrections population with healthcare services and access to Section 340B pricing; thus saving the State of Texas more than \$10 million annually.

Every state has Section 340B providers, particularly DSH hospitals and Federally Qualified Health Centers (FQHC), which includes the Florida DOH, that are also eligible under the program.

Although the Florida DOH is the only state agency that can purchase drugs at the federal 340B prices (because DOH is the recipient of federally awarded programs and responsible of the administration of the FQHC), Florida may be able to expand some of its pharmaceutical purchasing through the 340B program. DOH is piloting an initiative with the DOC to purchase drugs for patients with HIV/AIDS and sexually transmitted diseases (STDs) through the 340B program. Physicians employed by the DOH will treat inmates in the pilot program, and because of direct treating relationship, DOH will be authorized to purchase drugs under Section 340B for inmates in the pilot project. This pilot project could be expanded to all DOC facilities for the purchase of HIV and STD pharmaceuticals for inmates.¹²²

¹²¹ The program was created by Public Law 102-585, the Veterans Health Care Act of 1992, Section 340B.

¹²² Office of Program Policy and Government Accountability of the Florida Legislature, “RESEARCH MEMORANDUM: **Feasibility of Consolidating Statewide Pharmaceutical Services**,” March 3, 2009, www.oppaga.state.fl.us/Monitor/docs/Reports/pdf/Feasibility_of_Consolidating_Statewide_Pharmaceutical_Services.pdf

The Florida DOC operates 62 correctional facilities. Twenty-two are “HIV cluster prisons,” housing most of the HIV-infected inmates to allow for the concentrated and intensive medical care such inmates need. The average cost of treating an inmate with HIV is \$1,863 per month.¹²³ Florida has approximately 3,000 prisoners who are HIV positive or have AIDS at any one time. By multiplying the cost of treating an inmate with HIV by the number of inmates with HIV housed by DOC then a conservative estimate of the cost of treating the inmates at DOC is \$67 million per year. **Assuming 2 percent savings then using Section 340B pricing would save the state more than \$1.3 million per year beginning in FY 2010-11 and annually thereafter.**

The state should also expand this type of DOH partnership to purchase section 340B drugs for other state entities, such as Department of Children and Families, DJJ, and other entities that provide outpatient pharmaceuticals directly to patients in the state’s care. An analysis by the Florida Department of Health’s Bureau of Statewide Pharmaceutical Services found that the “state would have saved \$7.4 million over three years if it purchased the top 50 most prescribed medications at 340B prices.”¹²⁴ **Assuming the savings are equal over the three years and projecting into future years, purchasing the top 50 most prescribed pharmaceutical drugs under 340B would save approximately \$2.5 million annually.**

Recommendation: The state should expand the use of the Section 340B program for acquiring cheap pharmaceuticals through establishment of partnerships with associated state agencies and Section 340B providers.

74. Find other fund sources for services to undocumented immigrants in state mental facilities

During the 2009 Session, the Sunset Review Committee requested that OPPAGA research the issue of illegal immigrants housed in Florida’s state mental health hospitals. Specifically, whether there were other funding sources for this population (which is currently funded with 100% general revenue). This issue has been assigned to the criminal justice group at OPPAGA. There do not appear to be other funding sources, but there do appear to be options to work with the federal government to deport these individuals back to their nations of origin when appropriate, which would **save the state \$8 million annually beginning in FY 2010-11.**

Recommendation: The Legislature should require appropriate state agencies to work with the federal government to reduce the cost of maintaining undocumented immigrants whenever possible.

¹²³ Kitahata, et al, “Effect of Early versus Deferred Antiretroviral Therapy for HIV on Survival,” New England Journal of Medicine, April 30, 2009; Volume 360, Number 18, pages 1815-1826.

¹²⁴ Office of Program Policy and Government Accountability of the Florida Legislature, “RESEARCH MEMORANDUM: Feasibility of Consolidating Statewide Pharmaceutical Services,” March 3, 2009, www.oppaga.state.fl.us/Monitor/docs/Reports/pdf/Feasibility_of_Consolidating_Statewide_Pharmaceutical_Services.pdf

75. Require all classes of employees to pay same premiums for health insurance

While most state employees pay a monthly premium for their state-subsidized insurance coverage (\$50 per month for individual policies and \$180 per month for family coverage), about 26,000 SPS workers pay no premiums at all, including nearly all of the Governor's staff, the 160 legislators, 1,800 legislative employees, Senior Exempt Service (SES), and SMS employees. An additional 5,000 non-SPS do not pay premiums.

Requiring all SPS employees (including elected officials and SES and SMS employees) to pay health insurance premiums (as required of CS employees) **would save the state an estimated \$46 million in the FY 2010-11 and annually thereafter; requiring all state workers (SPS and non-SPS) to pay premiums would save an estimated \$54.8 million annually beginning in FY 2010-11.**¹²⁵

Recommendation: The Legislature should direct DMS to modify the health insurance benefits to reflect the same benefit package currently afforded to CS employees.

76. Improve cost-sharing arrangement by replacing copayment plan with coinsurance plan

Whether or not an individual employee is required to pay a monthly premium for their health insurance, state health plans' cost-sharing arrangement (i.e., the variable costs based on utilization) is a copayment for each health-related service (e.g., for each doctor visit or for each prescription filled). The copayment cost-sharing arrangements, however, is a set fee per transaction and does not incentivize beneficiaries to behave like rational consumers because it removes their financial stake in cost-benefit decisions related to medical treatment. A coinsurance arrangement is a more modern, market-based, consumer-driven form of cost-sharing.

With co-insurance, employees pay a percentage of the total medical expense. Experts say co-insurance rates are typically split 80-20 or 70-30 between the health plan and the insured worker. By changing to co-insurance, people are more aware of costs and may be more careful about how they spend their health care dollars.

Many private employers who provide health insurance benefits to their employees are now implementing coinsurance arrangements instead of co-payments. Similarly, some states have recently proposed shifting to co-insurance in their health plan; however, Florida continues to offer only a co-payment cost-sharing plan.

Converting from a copayment based plan to a coinsurance based plan where State Personnel System (SPS) state employees pay 25% would result in an estimated savings of

¹²⁵ The estimated savings are based on the following assumptions: for each pay plan, approximately 25% of SMS and SES employees have individual coverage and 75% have family coverage; the annual health insurance premium for a career service employee is \$600 for individual and \$2,160 for family coverage.

approximately \$160 million in the first year and annually thereafter.¹²⁶ However, consideration should be given to the potential consequences associated with co-insurance, such as the impact of catastrophic health-related occurrences on employees' finances – these concerns can be appropriately addressed, but any potential cost is not considered in the savings estimate.

Moreover, annual savings in subsequent years would likely increase as market forces exert pressure, causing some employees to change to more healthy lifestyles, adopt better behaviors, and adopt more reasonable and conscious spending practices. Under the traditional co-pay healthcare model, demand for healthcare services is disconnected from consequences. When employees have the motivation and ability to make better decisions, they avoid unnecessary, unsafe, or overpriced medical treatment; remove cost from the system; and increase their satisfaction with health benefits.

Although the savings associated with changes in employee behavior are not included in the cost savings estimate, there is reason to believe that it would be significant over time, likely hundreds of millions of dollars over the next two fiscal years.

Recommendation: The Legislature should direct DMS to develop a co-insurance plan for state employees' health insurance.

77. Create a health insurance stipend for state employees

Many private businesses and some governmental entities, including the federal government, provide a health insurance stipend for employees and offer a menu of contracted, pre-packaged health insurance options. The employee may apply the full amount of the stipend toward any insurance plan available from the menu of options through this system of managed competition. Any additional costs of the chosen plan exceeds the stipend are paid by the employee. While the stipend will cover the cost of basic health insurance plans, more robust plans with extensive options will require employee contribution.

Plans differ on specifics, but one example is the Federal Employees Health Benefits (FEHB).

On average Florida pays approximately \$7,000 per employee per year for health insurance. **If the stipend were set so that the state would realize a savings of 1 percent on the total cost of**

¹²⁶ This estimate is based on all associated pay plans for SPS employees being subject to a coinsurance based plan, including SES and SMS employees. Specifically, the estimated savings by pay plan are as follows: Career service - \$65.1 million, SES - \$42.4 million, and SMS - \$2.9 million. In addition, the cost savings estimate reflects the assumption that requiring participation in a coinsurance payment plan for non-SPS state employees would save an additional \$50 million annually. The estimated savings are based on the following assumptions: The cost for health insurance benefits under a coinsurance based plan will average \$427 for individual coverage and \$967 for family coverage per month, which is based on reported costs for FY 2007-08. For each pay plan, 50% of employees have individual coverage and 50% having family coverage. State Personnel System (SPS) employees total 112,459 or approximately 65% of the state workforce. Of the 61, 027 non-SPS state employees, approximately 5,000 are not currently required to pay any health insurance premiums. The remaining 56,000 non-SPS state employees pay the same health insurance premiums as career service employees.

employee health insurance (\$1.2 billion), the state would save a recurring \$12 million beginning in FY 2010-11.

Recommendation: The Legislature should determine a set cap per employee and each employee should be offered a menu of health insurance plans from which to choose.

78. Provide incentives based on controllable wellness indicators

Many governmental and private entities, including other state governments, offer incentives to employees based on controllable wellness indicators, primarily tobacco use and body weight level. Reportedly, these types of incentive programs have resulted in a much slower increase in overall health care costs for some employers.

Incentivized wellness programs are being used by states across the country. Long used by private industry, state governments are realizing the benefits of incentivized wellness programs to both the employee as well as the taxpayer. The programs are intended to encourage and support state employees to do such things as stop using tobacco and reduce their Body Mass Index (BMI) and, in so doing, improve their personal health and work-related productivity. Research is supportive of this win-win scenario and demonstrates that incentivized wellness programs improve the health of the employee while also benefiting the organization for which the employee works.

It is not news that poor health behaviors cost the public a lot of money. There are well researched and documented economic costs associated. Specifically, A U.S. Center for Disease Control and Prevention study indicates that from 1997-2001, smoking caused approximately 438,000 premature deaths in the United States annually and approximately \$92 billion in annual health-related economic losses.¹²⁷ In 1998, smoking-attributable personal health care medical expenditures were \$75.5 billion.¹²⁸ For each of the approximately 46.5 million adult smokers in 1999, these costs represent \$1,760 in lost productivity and \$1,623 in excess medical expenditures; the economic costs of smoking totaled \$3,391 per smoker per year.¹²⁹ These are costs, when translated more directly in the state, the taxpayers of Florida cannot afford.

¹²⁷ Center for Disease Control and Prevention (U.S. Department of Health and Human Services), "Annual Smoking-Attributable Mortality, Years of Potential Life Lost, and Productivity Losses --- United States, 1997-2001," Morbidity and Mortality Weekly Report (MMRW), April 12, 2002, 51(14): 300-3; available electronically at www.cdc.gov/mmwr/preview/mmwrhtml/mm5425a1.htm. (Figures were even higher for the 1995-1999 period: "Results show that during 1995--1999, smoking caused approximately 440,000 premature deaths in the United States annually and approximately \$157 billion in annual health-related economic losses." Center for Disease Control and Prevention (U.S. Department of Health and Human Services), "Annual Smoking-Attributable Mortality, Years of Potential Life Lost, and Productivity Losses --- United States, 1995-1999," Morbidity and Mortality Weekly Report (MMRW), July 1, 2005, 54(25): 625-8; available electronically at www.cdc.gov/mmwr/preview/mmwrhtml/mm5114a2.htm.)

¹²⁸ Ibid.

¹²⁹ Center for Disease Control and Prevention (U.S. Department of Health and Human Services), "Annual Smoking-Attributable Mortality, Years of Potential Life Lost, and Productivity Losses --- United States, 1995-1999,"

Currently, 21 states have incentivized wellness programs for their employees: Alabama, Delaware, Georgia, Indiana, Kansas, Kentucky, Minnesota, Missouri, Montana, New Hampshire, North Carolina, North Dakota, Oklahoma, Pennsylvania, Rhode Island, South Carolina, South Dakota, Utah, Washington, West Virginia, and Wyoming. The incentivized wellness programs provide a variety of discounts to employees, ranging from \$5-\$500 dollars in several forms, including premium discounts for their insurance, gift cards, and reduction in co-pays.

These incentive programs can use incentives or disincentives (i.e., colloquially, carrots or sticks). For example, in Georgia employees may receive a \$25 discount in their Health Reimbursement Account and a family can receive \$250 for completing a wellness exam,¹³⁰ but tobacco use is discouraged by requiring state employees to pay extra premiums each month (called a “smokers surcharge”) for using tobacco use.¹³¹ In Alabama, participants receive a discount on their insurance if they do not smoke and their Body Mass Index (BMI) is below 25.¹³²¹³³ The state of Arkansas offers discounts for positive health behaviors in their state employees. Arkansas workers are incentivized through monthly discounts on insurance premiums through their voluntary participation in health care screenings and through such screenings are provided an additional discount for positive health indicators.¹³⁴ Arkansas also provides non-cash incentives, such as allowing workers to earn vacation days known as “health days” for participating in well programs.¹³⁵

The concept is also not new to Florida. In 2006, Florida began implementing a policy to reward Medicaid recipients up to \$125 a year for engaging in specific wellness and healthy behaviors.¹³⁶ An incentive program for state employees could especially yield benefits because of the longevity of the employer/employee relationship; because state workers tend to stay with the state for long periods of time, a wellness program would likely have a high return on investment for the state.

Morbidity and Mortality Weekly Report (MMRW), July 1, 2005, 54(25): 625-8; available electronically at www.cdc.gov/mmwr/preview/mmwrhtml/mm5114a2.htm.

¹³⁰ State Incentivized Health Care Programs Report. October 2009. Department of Management Services/DSGI

¹³¹ National Conference of State Legislatures, “State Employee Health Benefits,” January 4, 2010; available electronically at www.ncsl.org/degault.aspx?tabid=14345

¹³² The body mass index is a measure that estimates a healthy body-weight based on a person's height; 18.5 – 25 BMI is considered “Normal range” while 25-30 BMI is considered “Overweight.”

¹³³ State Incentivized Health Care Programs Report. October 2009. Department of Management Services/DSGI

¹³⁴ National Conference of State Legislatures, “State Employee Health Benefits,” January 4, 2010; available electronically at www.ncsl.org/degault.aspx?tabid=14345

¹³⁵ National Conference of State Legislatures, “State Employee Health Benefits,” January 4, 2010; available electronically at www.ncsl.org/degault.aspx?tabid=14345

¹³⁶ AHCA Policy letter (2006). ENHANCED BENEFITS REWARDS PROGRAM. For more information, see http://ahca.myflorida.com/Medicaid/medicaid_reform/enhab_ben/enhanced_benefits.shtml

Public and private entities have realized significant savings through the implementation of employee wellness programs. According to a study in the peer-reviewed journal *Health Affairs*, private companies with wellness programs have seen a 28% decrease in sick leave, a 26% reduction in adjunctive health care costs, and a 30% reduction in disability and workers compensation costs.¹³⁷ North Carolina estimates that the health incentive programs save \$2 for every \$1 spent. Oklahoma estimates the health incentive program saves \$2.30 for every dollar spent.¹³⁸ And according to the Wellness Council of America, a \$1 investment in wellness programs saves \$3 in health care costs.¹³⁹

Every one percent reduction in Florida’s employee health care expenditures saves \$12 million for the taxpayers annually. Obviously, this does include the cost of the incentive program producing the savings in health care expenditures, but some of the administrative and benefits expenses could be recouped through the penalties for discouraged behaviors.

Recommendation: The Legislature should direct DMS to implement a program to provide incentives and disincentives for state employees based on controllable wellness indicators.

79. Reduce state insurance costs by reorganizing the state employee health insurance system

Self- insurance, also known as self-funding, is when the employer (or in this case state) insures their own employees, pay their own claims, administrative costs, and builds safeguards in place against any catastrophic events. Eighty-four percent of states self-insure their state employee health care programs, either in whole or in part.¹⁴⁰ Nearly two-thirds of large companies self-insure their employees.¹⁴¹

In December of 2009 the DMS, Division of State Group Insurance, and Buck Consultants released a report on the analysis of health care costs for 2010-2011 using various scenarios.¹⁴² The analysis examined four different options for reducing costs in health care for active state employees, COBRA participants, and early retirees. The four scenarios were:

- Scenario 1: Convert all current plans to self-insured
- Scenario 2: Elimination of all HMO’s

¹³⁷ *Health Affairs*, Volume 21, No.2, March 2002.

¹³⁸ www.nga.org/Files/pdf/0907HEALTHMANAGEMENTINITIATIVES.PDF

¹³⁹ www.welcoa.org/freeresources/pdf/wellness_matters_jk.pdf

¹⁴⁰ National Conference of State Legislatures, “State Employee Health Benefits,” January 4, 2010; available electronically at www.ncsl.org/degault.aspx?tabid=14345

¹⁴¹ Society of Professional Benefit Administrators, “What is Employee Health Benefits Self-Funding? And Why Should it be Encouraged as Good National Policy,” undated; available at <http://users.erols.com/spba/p0000062.html> (last viewed January 28, 2010).

¹⁴² Buck Consultants, “State of Florida Program Modification Study – All Participants,” December 22, 2009 (rev. 1-14-2010).

- Scenario 3: Elimination of all plans except for the Health Investor Health Plans (HIHP) options
- Scenario 4: Elimination of all plans except for the HIHP PPO option.

Converting all current plans to self-insured (#1) would save administrative expenses but would continue to be administered by the current HMOs. There would be a simple transition with no elimination of benefits.

Scenario #2 would eliminate all HMOs and all current participants would be offered a choice of the standard or HIHP PPO plans that are currently administered by Blue Cross Blue Shield of Florida (BCBSF) for medical care and CVS Caremark for pharmaceutical services. Most providers currently in the HMO plans would still be available under this scenario. Those providers not in the network could still be utilized since the PPO plans include out of network benefits.

The Health Investor Health Plans (#3, 4) have high deductibles that often do not cover medical expenses, except for preventative care, until the high deductibles are met. These plans would be seen as a large reduction of benefits to almost all participants, who would incur higher out of pocket expenses.¹⁴³

A synopsis of the plans is described in the table below.

Total Projected Impact for Fiscal Year 2010-2010¹⁴⁴

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Scenario Description	Convert all current plans to self-insured	Elimination of all HMOs	Elimination of all plans except for the Health Investor Health Plans (HIHP) options	Elimination of all plans except for the HIHP PPO option
Projected Cost Savings	\$ 9,878,732	\$ 118,595,621	\$ 245,838,669	\$ 295,035,238
Projected Revenue Impact	\$ 0	\$ 0	(\$151,990,796)	(\$151,378,229)
Total Net Trust Fund Savings	\$ 9,878,732	\$ 118,595,621	\$ 93,847,873	\$ 143,657,009

It is not clear that these are the only or preferred options, merely that a variety of adjustments in the current structure is possible.

Recommendation: The legislature should explore adjusting the current system in efforts to reduce costs while providing high quality health insurance coverage for state employees. Any

¹⁴³ Ibid.

¹⁴⁴ Ibid.

potential reform must carefully consider the amount of risk the state is willing to accept for potential health costs.

80. Medicaid waiver program administrative service support

Implementing an electronic system to provide administrative support of the Medicaid Home and Community-Based Long-term Care Services (HCBS) Waiver Programs can produce significant savings through: 1) a reduction in claim loss in three categories (1-reduction in losses attributable to eligibility-related reporting errors/inaccuracy, 2-misrepresentation of service units provided, and 3-data input errors) and through a reduction in waiver administration costs (reduction in paper processes, process improvements in case management and point of care authorization functions, reporting accuracy and efficiencies, and electronic billing and claim control enhancements).

Florida's HCBS Waivers serve over 60,000 participants, expending more than \$1.1 billion in health and social services, through 14 different Waivers, in three different departments. Additionally, there are waiting lists with over 20,000 potential eligible clients of which many are receiving some services while on the waiting lists. However, all of the individual waiver programs are managed through various systems, disparate applications, and paper processes. There is very little coordination between waivers and no enterprise management or view of the waivers. This includes both those in the Waiver programs and those on waiting lists.

Because of the nature of the current, mainly manual, administration of the HCBS programs in Florida, there are un-quantified losses or additional unnecessary costs related to both the claim process and the administrative support. Implementing the administrative support components for the HCBS Waiver programs could control these losses and unnecessary costs.

Assuming a 1 percent loss due to duplicate payments, unauthorized services, and overpayments (a.k.a. aberrant claims), the state losses approximately \$11 million annually due to lack of coordination in administration of waivers. Outsourced systems are available that could reduce these losses. Assuming a 20 percent revenue share with the vendor on 1 percent losses avoided, **the state would save \$8.8 million in FY 2010-11 and annually thereafter** (assuming no additional upfront or implementation costs).

South Dakota has implemented a similar program (but there are no finalized cost savings). Other states are contemplating this type of administrative support, including Texas, New Hampshire, and Hawaii.

Recommendation: The Legislature should consider the implementation of an enterprise-wide Medicaid Home- and Community-Based Long-term Care Services (HCBS) Waiver programs administrative support system.



Government Cost Savings Task Force

Chapter 8 – Education Recommendations

- 81. Expand the Florida Tax Credit Scholarship Program**
- 82. Utilize competitive contracting in providing non-instructional services for K-12 schools**
- 83. Amend the Class Size Reduction amendment**
- 84. Reduce the cost of K-12 textbooks**
- 85. Require post-secondary students to pay 100 percent of actual costs of excess credit hours earned**
- 86. Create a cap for Bright Futures Scholarships**
- 87. Expand virtual education**
- 88. Implement web-based volunteer hour tracking system**

Introduction

It can seem harsh to put the education system under the budget knife. Education is a key component to the state’s vitality, competitiveness, long-term economic stability and quality of life. Businesses depend on it to attract and retain their employees and to build and sustain their economic development. Families depend on it to unlock and nurture the untapped potential of their children, to send them out into the world to do good and productive things and earn a living.

Naturally, there is strong public desire to, at the very least, “hold schools harmless” or, at the very best, add to, rather than diminish, the education budget pot. But, as with all core government services, the quality of our public education system cannot be determined or improved by merely throwing more dollars at it. The question is not how much, but rather, how much *where*.

Florida’s current decline in general revenue is of historic proportion, the Legislature is facing unprecedented budget shortfalls, and public education consumes approximately one-third of all state spending, and so the reality for now, as it will be for next year, is that the state must continue to grow and nurture the students of Florida toward increased academic achievement within the confines and challenges of a smaller budget. It necessitates that we refocus on our core mission, reprioritize expenditures, and reframe our efforts to assure that the most important goals are met. It is more important than ever that these limited resources, whatever the actual amount, be spent well and wisely in areas that are proven by research and practice to work.

Florida can rise to this challenge. The state can employ a common sense methodology that addresses the immediate financial concerns of today and that lays the groundwork for future prosperity.

81. Expand the Florida Tax Credit Scholarship Program

The Florida Tax Credit Scholarship Program (originally called the Florida Corporate Income Tax Credit Scholarship Program) was established by the Florida Legislature in 2001 to broaden education options for financially disadvantaged students in the state. The program enhances family choice and the opportunity for low income families to send their children to non-public schools, although the scholarship may not cover the full cost of tuition and books. Corporations that operate in Florida are allowed to contribute up to 75 percent of their total corporate income tax liability to the program in exchange for a dollar-for-dollar tax credit. The maximum amount of tax credits permitted was originally capped at \$50 million, but since the implementation of this program, the legislature raised the cap to \$88 million for FY 2005-06 and to \$118 million for FY 2008-09. Legislative efforts are currently in motion to continue the expansion of this program.

Previous Florida TaxWatch research has shown that this program saves significant state funds and that expanding the program by raising the total cap would save millions.¹⁴⁵ Per pupil Florida Education Finance Program (FEFP) spending by the state is currently about \$5,000, while the per student limit of the scholarship is \$3,950; resulting in \$1,050 per student savings for the state for every student that receives a Florida Tax Credit Scholarship. At the current \$118 million cap, approximately 29,873 students receive money from the scholarship, saving the state approximately \$31 million in FEFP expenditures. **For every \$1 million that the cap is expanded by, the state could enlarge the program by 253 additional students and save an extra \$266,000.**

Recommendation: The legislature should continue to support the expansion of The Florida Tax Credit Scholarship Program.

82. Utilize competitive contracting in providing non-instructional services for K-12 schools

The great majority of school funding should be dedicated to direct instruction. Non-instructional services and activities, such as transportation, facility maintenance, food service, back office technology, data warehousing, human resources, payroll, and insurance, etc., should be provided at the least possible cost. The Legislature can require school districts to competitively contract the provision of non-instructional services and let the market forces prevail.

As reported in the Florida TaxWatch Center for Educational Performance & Accountability report, *The 2009 Budget Crunch – Making Good Decisions in Bad Financial Times*, the National Center for Education Statistics (NCES) compiles information on educational expenditures throughout the United States. For 2006-2007, the most recent school year for which comparative

¹⁴⁵ Fisher, Michael. "Increase the Current Limits on the Corporate Income Tax Credit for Scholarships Program to Help Alleviate Fiscal Burden of Amendment 9 Class-Size Reduction Requirements." Florida TaxWatch Research Report. February 2003.

<http://www.floridataxwatch.org/resources/pdf/CITCreditforScholarshipsProgramkbBG2mfkbf0310.pdf>

data are available, expenditures are reported in actual dollars in three categories: instruction expenditures, support services expenditures, and non-instruction expenditures.¹⁴⁶ In the chart below the actual dollars are converted to percentages to compare Florida with other states and the national average.

State	Total Current Expenditures	Instruction Expenditures as % of Total	Support Services Expenditures as % of Total	Non-Instruction Expenditures as % of Total	Support and Non-Instruction as % of Total
Florida	\$22,887,023,787	59.6%	36.0%	4.4%	40.4%
Alabama	\$6,245,031,142	58.5%	34.9%	6.6%	41.5%
California	\$57,352,599,016	60.1%	36.1%	3.8%	39.9%
Georgia	\$14,828,714,988	63.1%	31.8%	5.1%	36.9%
New York	\$43,679,907,987	69.1%	28.7%	2.2%	30.9%
North Carolina	\$11,248,336,069	62.0%	32.6%	5.3%	38.0%
Oklahoma	\$4,750,535,868	58.0%	35.4%	6.6%	42.0%
South Carolina	\$6,023,043,312	57.7%	37.0%	5.4%	42.3%
Tennessee	\$6,975,098,915	63.8%	31.2%	5.0%	36.2%
Texas	\$36,105,783,504	59.5%	35.3%	5.2%	40.5%
Virginia	\$12,465,858,300	61.2%	34.8%	4.0%	38.8%
U.S.	\$476,825,866	61.0%	35.0%	4.0%	39.0%

Florida’s percentage of non-instructional expenses runs about 1.4% higher than the national average and about 10% higher than New York. The fact of the matter is, in many ways this equates to comparing apples to oranges, and not all measurements among the states are exactly “fair” given such things as size of districts within states (i.e., does this account for higher transportation costs?) or whether heating costs in states where cold weather is prevalent during the school year are equal to the costs of heating in states (such as Florida) where it is likely that air conditioners may be run more.

Another important point of concern in comparing states’ expenditures as categorized so broadly is in just looking at the percentage of expenditures rather than in comparing dollars per pupil. Among the states, the per pupil expenditures vary greatly and a question might be raised as to whether, because of Florida’s rather lean expenditure, a percentage of such would be a “fair” assessment. It is Florida TaxWatch’s contention, as supported by previous research, that it is not merely how much money one expends in a state’s educational systems that gets the best bang for the buck, but it is how much money is spent where: namely in the classroom.¹⁴⁷ So, in the absence of a better way to drill down the comparison, Florida TaxWatch resorts to what research

¹⁴⁶ The categories are different than those used by NCES for 2003-2004, the data used in *The 2009 Budget Crunch*.

¹⁴⁷ Florida’s Financial Commitment to K-12 Education: How Much Money Is Enough? , Florida TaxWatch, 2005.

supports, and also recognizes the importance of using what is available, such as comparisons as developed by NCES, to keep our state on track and competitive nationally.

Non-instructional and support services expenditures could prove to be more cost effectively provided through the private sector, or even if in-sourced back to the school district. It is not a question of preference for business or public entity, it is a matter of practicality. Whatever form it takes, the provision of such services should be delivered in the most cost-effective means. Florida spent over \$9.2 billion on support services and non-instructional expenditures in 2006-2007. Based on the NCES 2006-2007 data, **if Florida simply met the national average of 39%, the 1.4% difference saved would be over \$300 million.**¹⁴⁸

Recommendation: The Legislature should require school districts to competitively bid services for non-instructional expenses to determine the most cost-effective means for providing these services, and simultaneously require the districts to achieve an overall reduction in the cost of these services in the first year to meet the national average, with further reduction targets set for years two and three.

83. Amend the Class Size Reduction amendment

In 2002, Florida voters amended the State Constitution and mandated specific classroom caps of 18 students in grades PreK-3, 22 students in grades 4-8, and 25 students in grades 9-12. The Class Size Reduction (CSR) amendment established gradations of implementation, moving from district averages, to school site averages, and ultimately to each classroom average. School districts have consistently made progress toward meeting these requirements. Major associated costs fall into two primary areas: facilities construction and implementation. The primary expenses connected with implementation are new teacher salaries and benefits. Billions of dollars have thus far been appropriated on CSR. As reported by Senate staff, state expenditures on CSR have so far been \$15.2 billion.¹⁴⁹

Florida TaxWatch has long recognized that CSR implementation illustrates one of those unenviable situations where scientific research does not match public perception. Studies do not support that across-the-board student assignment limits will raise academic achievement. It has been a long-time recommendation of Florida TaxWatch to minimally adjust the inflexibility of the amendment and its ability to tie the hands of funding in Florida's school districts. In the absence of adjustments, Florida TaxWatch has also made recommendations for ways in which Florida's school districts can reduce the costs of its unwieldy implementation.¹⁵⁰ These ideas, including the use of co-teaching, relocatables, enhanced virtual learning opportunities, and other

¹⁴⁸ Due to the change in reporting categories by NCES, the 1% savings calculated with the 2006-2007 data is a much higher savings than the TaxWatch CEPA 2009 Budget Crunch calculated.

¹⁴⁹ Bill Analysis and Fiscal Impact Statement, SJR2, Education-Pre-K-12 Committee, The Florida Senate, February 15, 2010, www.flsenate.gov/data/session/2010/Senate/bills/analysis/pdf/2010s0002.ed.pdf.

¹⁵⁰The 2009 Budget Crunch: Making Good Decisions in Bad Financial Times, Florida TaxWatch, April 2008.

cost-effective means should be fully implemented as appropriate rather than immediate reliance on a more traditional and costly expense: school construction.

In its current state of implementation, the CSR amendment offers a bill that, while Florida taxpayers asked for it, Florida taxpayers cannot afford to pay when taken to its next mandated step – **the individual classroom level – without seriously compromising funding in other important areas, such as health, child welfare, and the like.**¹⁵¹ Short of complete removal from the Florida Constitution, maintaining the CSR at the school average makes much more sense than taking it down to the individual classroom level.

A proposed joint resolution is now making its way through the Legislature, should it pass, that would offer an opportunity to Florida voters to amend the amendment. This amendment, among other changes, would keep the class size cap the same as it is currently mandated at the school average, but limits the total allowable maximum students per teacher at the classroom level in the following manner: 21 students for grades preK-3; 27 students for grades 4–8; and 30 students for grades 9-12. Essentially, this proposed fix would reintroduce flexibility into the schools in making CSR work and would avoid such likely unintended and expensive consequences as schools having to create entire new classrooms with the addition of merely one student in certain circumstances. **Generally accepted savings are approximately \$350 million annually.**

Recommendation: The Legislature should propose an amendment to the Florida Constitution limiting the CSR amendment requirements to the school level.

84. Reduce the cost of K-12 textbooks

School textbook prices have risen considerably in recent years. Depending on the subject, a single elementary textbook can range in price from \$30 to \$100. According to the Florida Association of District Instructional Materials Administrators (FADIMA), for the 2010-2011 school year, the cost of instructional materials for K-12 public school students will be \$266,935,277.¹⁵²

The cost of textbooks has almost tripled since the 1995-1996 school year when the total appropriation was \$90,947,040.¹⁵³ In an *Information Brief* released in April 2003, OPPAGA reviewed Florida’s textbook adoption system and made several recommendations to reduce the

¹⁵¹ Florida TaxWatch has, since before the amendment’s passage, pointed to the research which does not support that across the board class size reduction will raise student achievement.

Furthermore, there is reason to believe that carrying through with the class size reduction mandate as currently written into the Florida Constitution will have serious unintended negative consequences.

¹⁵² “Instructional Materials Cost Analysis For Fiscal Year 2010-2011,” FADIMA, www.fadima.net/pdf/2010-11-CostAnalysis.pdf, accessed on January 15, 2010.

¹⁵³ “K-12 Textbook Approach Needs District Flexibility and Publisher Accountability,” OPPAGA, Report No. 03-28, April 2003.

cost, including authorizing districts to purchase used books.¹⁵⁴ Two years later, a follow-up report by OPPAGA noted progress in the cost reduction with some changes in the textbook adoption policy and guidelines;¹⁵⁵ however, **there may be \$53 to \$80 million annually in additional potential savings in the purchase of K-12 textbooks.** Additional options follow.

One such option is for the state to extend the textbook adoption cycle from an average of five years to up to ten years; however, due to the recent changes in the state science and math standards, the state has to adopt new math textbooks in 2010 and science textbooks in 2011. Therefore, extending the adoption cycle will not produce any short-term savings. The state should not dismiss this option, though, given this immediate limitation. It is a very viable, long-term policy option that will serve to control the cost. While arguments from experts may differ and provide more nuanced insight, simply, courses like mathematics do not, as a rule, significantly change in terms of course content. In turn, courses such as basic math do not require shorter adoption cycles.

Another cost-saving option is for the state to move toward digital textbooks. Currently, there are several e-book devices, which offer great promise and may in fact revolutionize the industry. As discussed in a *New York Times* article, hardcopy text books may quickly become a thing of the past in the near future.¹⁵⁶ However, these devices are not quite ready to be fully launched and provide school textbooks. With nascent industry exception, for instance, they so far provide content only in black and white. Furthermore, they are not supportive of some applications needed for the delivery of digital textbooks. Therefore, despite what may lie ahead in the potential savings in moving to digital textbooks, Florida may need to wait for a few more years for the cost-effective development of these devices.

Yet another option is to ease certain requirements in the textbook adoption process. For instance, currently publishers are required to provide a hardcopy of proposed textbooks to teachers and other educators for their review. This results in the printing and delivery of thousands of textbooks for the review process. This cost could be avoided in a statewide move to digital samples, assuming that all teachers have computers to receive and review digital copies of sample textbooks. Publishers may be willing to provide a certain discount if the state moves to accept digital copies for the review process. **The potential cost savings from shifting to digital samples is estimated at \$65 million annually.**¹⁵⁷

Publishers also provide so-called “free materials” to teachers with the adoption of textbooks. Common sense, however, recognizes that nothing is ever actually free, and publishers, instead,

¹⁵⁴ “K-12 Textbook Approach Needs District Flexibility and Publisher Accountability,” OPPAGA, Report No. 03-28, April 2003.

¹⁵⁵ “Steps Taken to Reduce Instructional Materials Costs; Additional Changes Could Benefit Districts,” OPPAGA Report No. 05-18, April 2005.

¹⁵⁶ Lewin, Tamar: “In a Digital Future, Textbooks Are History”, *New York Times*, August 9, 2009.

¹⁵⁷ Bill Purtell, FADIMA’s president, personal communication with Florida TaxWatch, January, 18, 2009.

include the cost of free materials into their overall prices. In certain cases, the value of free materials could even exceed the value of textbooks.¹⁵⁸ Therefore, some states have established strict guidelines on textbook samples and free educational materials given by the publishers. For instance, the guidelines issued by the South Carolina DOE set the following restrictions on samples and free materials: “Samples to districts and schools can include up to one copy of the Pupil Edition, Teacher Edition, and Teacher Resource CD-ROM or electronic version for each course level of an adopted program plus a list of adopted supplemental items, overview of program or brochure, and correlation. Publishers cannot send and districts cannot request samples in quantities of more than one per number of schools in the district plus one additional set for district use.”¹⁵⁹ With the implementation of this policy, South Carolina last year saved around 20% in its cost of K-12 textbooks.¹⁶⁰

Based on the savings data from South Carolina and information from the president of FADIMA, **the estimated savings for Florida in setting stricter restrictions on textbook samples and free educational materials might range from 20 to 30 percent of the current cost for textbooks, which would save \$53,387,055 (20%) to \$80,080,583 (30%) annually.** The estimated savings will likely be greater than the 20% realized in South Carolina because this proposed shift also includes the use of digital textbooks for samples, not merely the restriction on the number of textbooks sent to the schools and districts.

Recommendation: The Legislature should require school districts to use digital samples for the textbook review process. The Legislature should also set guidelines for the distribution of such free materials that accompany textbooks as a cost control measure. Publishers should not be allowed to provide any free materials other than the core list approved by the DOE. The budget allocation to the districts for textbooks should be adjusted based on the estimated savings.

85. Require undergraduate students to pay out-of-state tuition for each credit hour earned in excess of a threshold percentage of graduation requirements

Consistent with a recommendation from the Florida TaxWatch January 2009 cost savings report,¹⁶¹ the 2009 Florida Legislature created an excess hours surcharge (through SB 1696) mandating that if a student exceeds 120 percent of the number of credit hours required to earn his/her baccalaureate degree, then he/she is required to pay an additional 50 percent tuition fee for each credit hour earned. (The 50% increase in tuition fee for the excess credit hours

¹⁵⁸ K-12 Textbook Approach Needs District Flexibility and Publisher Accountability, OPPAGA, Report No. 03-28, April 2003.

¹⁵⁹ *2010 Caravan Guidelines*, Instructional Materials Adoption, Office of Standards and Support, South Carolina Department of Education.

¹⁶⁰ Personal communication with Kriss Stewart, Program Coordinator, Instructional Materials Adoption, Office of Standards and Support, South Carolina Department of Education.

¹⁶¹ Florida TaxWatch, *Constructive Ideas to Help Address the Budget Shortfall*, January 2009: Recommendation 9 on page 5.

mandated this year will only recover 35% of the in-state-tuition subsidy.)¹⁶² This change applies to students entering a state university or community/state college for the first time in the 2009-2010 academic year and thereafter.

The state could produce even more savings if the fee for these excess credits is increased to the out-of-state tuition fee. Indeed, in 2005, the Legislature passed SB 2236 to require students to pay 75% of the actual cost of excess credit hours beyond 120% of the credits required for their degree; however, the bill was vetoed by the Governor. Additionally, Florida is not the only state charging more for excess credits. Texas law authorizes public universities to charge the out-of-state tuition rate for credit hours earned by undergraduate students once they have earned 30 credit hours in excess of the graduation requirement.¹⁶³

A 2004 OPPAGA study¹⁶⁴ on excess credit hours estimated that 78 percent of all students graduating from the State University System (SUS) in 2002-2003 had accumulated 719,660 credit hours in excess of graduation requirements. These excess hours attempted by SUS students graduating in 2002-2003 cost the state \$62 million. A recent update by OPPAGA reveals that 2006-2007 SUS graduates received 861,000 credits in excess of graduation requirements which cost the state \$76 million, a 23% increase since 2002-03.¹⁶⁵

In-state students (i.e., Florida residents enrolled in the SUS) pay 76.7% less tuition fee per credit hour (on average) compared with out-of-state students (i.e., non-Florida residents).¹⁶⁶ Based on this ratio and OPPAGA's estimates (presented above), if students were required to pay out-of-

¹⁶² The 35% recovery figure is based on the student previously being responsible for 23.3% of the cost of each excess credit hour (equal to the percent the student pays for all credit hours) plus an additional 50% of the student's cost ($50 * 23.3$ plus $23.3 = 35\%$). This formula can also be explained as: savings from 50% hike = (the cost to state/4.3)*0.5 based on the assumption that the state subsidy per an excess hour is equal to the 76.7% of average out-of-state tuition fee.

¹⁶³ "An institution of higher education may charge a resident undergraduate student tuition at a higher rate than the rate charged to other resident undergraduate students, not to exceed the rate charged to nonresident undergraduate students, if before the semester or other academic session begins the student has previously attempted a number of semester credit hours ... that exceeds by at least 30 hours the number of semester credit hours required for completion of the degree program in which the student is enrolled." (Texas Education Code Section 54.068)

¹⁶⁴ Stronger Financial Incentives Could Encourage Students to Graduate with Fewer Excess Hours, OPPAGA, Report No. 04-44, June 2004. See also: Progress Report: State Policies for Excess Hours Remain Unchanged; Steps Taken to Strengthen Academic Advising, OPPAGA, Report No. 07-37, September 2007; Excess Hours at Community Colleges Warrant Attention by the Department of Education and the Legislature, OPPAGA, Report No. 05-30, April 2005.

The 2004 study also identified several factors that contribute to students accumulating excess hours: frequent changing of majors; taking courses that are not required for graduation; and re-taking courses that the student withdrew from or failed previously.

¹⁶⁵ An OPPAGA presentation before the Florida House of Representatives' State Universities & Private Colleges Policy Committee on March 18, 2009.

¹⁶⁶ The average tuition rate for non-residents is approximately 4.3 times greater than that for residents (see the Florida Board of Governors' website: <http://www.flbog.org/about/budget/current.php>).

state tuition for excess credit hours, the state would save \$31.8 million to \$67.2 million per year, depending on the required credit hours.¹⁶⁷

**Estimated Savings with the Proposed Change
FY 2010-11**

Total credits as percent of graduation requirement qualifying as excessive	115%	110%	100%
Number of credit hours qualifying as excessive ^a	404,188	524,434	861,000
“Cost to the state” ^b	\$36m ^c	\$46m ^c	\$76m ^a
Savings due to the 50% tuition hike in 2009-10 ^d	\$4.2m	\$5.4m	\$8.8m
Estimated savings with the proposed change ^e	\$31.8m	\$41.6m	\$67.2m

^a The figure for 100 percent of the graduation requirement is from the OPPAGA presentation to the House of Representatives’ State Universities & Private Colleges Policy Committee on March 18, 2009; the other two figures are estimated based on comparable ratios from a 2004 OPPAGA study (“Stronger Financial Incentives Could Encourage Students to Graduate With Fewer Excess Hours,” Report No. 04-44, June 2004) in which the number of excess credit hours was 438,344 for over 110% of degree requirements; 337,837 for over 115% of degree requirements; and 719,660 for over 100% of degree requirements.

^b “cost to the state” is calculated as tuition lost by charging in-state rate instead of out of state rate for credit hours exceeding given percentage of graduation requirement.

^c Based on the average cost per excess hour (\$88.3) calculated from data provided by OPPAGA presentation to the House of Representatives’ State Universities & Private Colleges Policy Committee on March 18, 2009.

^d Savings from 50% hike = (the “cost to state”/4.3)*0.5 – which is based on the difference between the in-state and out-of-state tuition rate.

^e Estimated savings with the proposed change is the “cost to the state” minus the savings after the recent hike.

Recommendation: The Legislature should mandate that the SUS and community/state colleges charge the out-of state tuition rate for credit hours encumbered in excess of a threshold percentage (between 100 and 115 percent) of graduation requirements for all students, regardless of residency status.

86. Create a cap for Bright Futures Scholarships

The Bright Futures Scholarship Program is Florida’s academic merit program that provides postsecondary funding to high school students for academic achievement. The program consists of three types of awards: the Florida Academic Scholars Award, the Florida Medallion Scholars Award, and the Florida Gold Seal Vocational Scholars Award, each with specific levels of academic requirements and corresponding rewards. To be considered for an award under the Bright Futures Scholarship program, a student must be accepted by and enrolled in an eligible Florida public or independent postsecondary education institution for at least 12 credit hours per semester. A student who receives a Bright Futures Scholarship will receive an award for a maximum of 110 percent of the number of credit hours required to complete the program.

Senate Bill 1696, which passed the 2009 Legislature, made some changes in the renewal and refunding criteria for the Bright Futures Scholarship. The bill requires institutions to refund to the Department of Education (DOE), within 30 days after the end of the semester, any funds

¹⁶⁷ The estimated savings assume the policy change would take effect immediately (i.e., would apply to existing students) and apply to all SUS students. They are based only on excess credit hours for SUS students; including the savings from undergraduate programs in the State College System would increase the potential savings.

received for courses dropped by students or from which students withdrew after the end of the drop and add period, with few exceptions. The bill also revises credit hour requirements for full-time students to earn 24 semester hours (or the equivalent) per academic year. The DOE projected cost savings of \$30 million in 2009-2010 through the refunding and \$20 million through the decline in the number of scholarship renewals due to the changes in the renewal eligibility.

Among other statewide outcomes, the Bright Futures Scholarship motivates students to take Advance Placement courses, honors courses, and to improve and sustain their GPAs. The program also encourages top high school graduates to stay in Florida for their postsecondary education. The second point is particularly compelling as the state of Florida must compete for talent in a global environment. But questions emerge regarding whether rational adjustments in the program will weaken the program or remove altogether the positive impacts. The program is an exciting state experiment that began just over a decade ago, and the new realities of its participant growth in relation to the state's wallet demand continuous review and subsequent appropriate amendment.

The cost of the program has skyrocketed since its inception in 1997, rising from \$70 million to \$429 million. The main factors behind this hike are the increase in the number of eligible students and the state's increasing tuition cost per credit hour. While the former has increased by 300%, the latter has increased by 86% on average. Recently, OPPAGA has recommended several options for controlling the cost, including: 1) changing the eligibility requirements for high school graduates (the estimated savings ranges from \$42 million to \$61 million); 2) changing the renewal requirements (the amount of savings is uncertain); 3) changing the restoration requirements after losing it (estimated \$4.1 million savings); 4) establishing a flat rate payment rather than covering the entire cost (the amount of savings depends upon the set rate); 5) reducing from 110% to 100% the number of credits covered under the scholarship (estimated as \$9 million savings); 6) reducing the scholarship by earned AP credits (estimated savings range from \$26 million to \$33 million).¹⁶⁸

Each of these options will help control the cost of the program; however, these options will also likely result in some undesired consequences. For instance, changing the eligibility standards by raising exam scores would have a disproportionate adverse impact on minority and at-risk students.

As a new entrant to the recommendations, Florida TaxWatch offers the creation of a cap as an alternative option to automatically adjust the eligibility requirements and to achieve the desired cost savings without distorting the merit of the scholarship. For additional savings, relatively less

¹⁶⁸ OPPAGA Presentation, "Bright Futures Scholarship Program," February 4, 2010: available at www.oppaga.state.fl.us/monitordocs/presentations/2-4-10_Bright_Futures_Scholarship_Program/2-4-10_Bright_Futures_Scholarship_Program_frame.htm.

potentially harmful options such as changing the renewal and restoration requirements, and reducing the number of credits covered, shall be considered.

Despite previous recommendations from OPPAGA,¹⁶⁹ the Legislature did not change the eligibility requirements for the scholarship. As mentioned above, the cost hike (276% since the inception) of the Bright Futures Scholarship is driven by the increase in the number of eligible students. In 1997-1998, only 30% of high school graduates met the eligibility requirements, while 23% actually received the scholarship. In 2008-2009, the number of qualifying students had increased to 38 percent, while the number of qualifying graduates who attend eligible Florida institutions reached 32% of all graduates.¹⁷⁰ In other words, the number of actual awards has increased by 9 percentage points (from 23% to 32%) since the program's inception year. A re-adjustment to a 30% cap on the number of new graduates eligible for the scholarship will help to return the program to its originally intended high merit reward status. This requirement directs that students must meet a higher 70th percentile criterion in order to be eligible for the award.

In the 2008-2009 academic year, the total number of Florida public and private high school graduates was estimated to be 164,258.¹⁷¹ Thirty-eight percent (62,360) of these students were eligible, and 32% (52,497) of them were actually awarded the Bright Futures Scholarship. The annual average cost of an award to the state was \$2,522 in the same academic year.¹⁷² As an example, if a cap of 30% were to be set on eligibility (i.e., only the top 30 percent of students in each school or school district were eligible), based on this historical trend,¹⁷³ only 24.9% of total new high school graduates would accept the scholarship.

¹⁶⁹ OPPAGA, "Most Bright Futures Scholars Perform Well and Remain Enrolled in College," Report No. 04-23, March 2004.

¹⁷⁰ Florida High School Graduates Eligible for Bright Futures, www.floridastudentfinancialaid.org/SSFAD/PDF/BFstats/BFReportsB.pdf, retrieved on January 15, 2010.

¹⁷¹ Florida High School Graduates Eligible for Bright Futures, www.floridastudentfinancialaid.org/SSFAD/PDF/BFstats/BFReportsB.pdf, retrieved on January 15, 2010.

¹⁷² Florida Bright Futures Breakout of Student Counts and Total Costs, www.floridastudentfinancialaid.org/SSFAD/PDF/BFstats/BFReportsA.pdf, retrieved on November 18, 2009.

¹⁷³ The historical trend is the average ratio of eligible Bright Futures students disbursed to initially eligible Bright Futures students for the school years 1997 through 2009 – the average ratio for this period is 83% of eligible students accept the award. (For the historical scholarship data see the following website: www.floridastudentfinancialaid.org/ssfad/PDF/BFstats/BFReportsB.pdf)

With these assumptions, the estimated first-year (FY 2010-11) savings from establishing a 30%, a 25%, or a 20% cap would be as follows:

	30% Cap	25% Cap	20% Cap
Estimated high school graduates in 2010-11*	163,274	163,274	163,274
Number of awards used at the current rate	52,248	52,248	52,248
Estimated number of awards used with the proposed cap**	40,655	33,879	27,103
Difference	11,592	18,368	25,144
Average cost	\$2,533	\$2,533	\$2,533
Total savings	\$29,363,650	\$46,526,910	\$63,690,170

* High school graduates for 2010-2011 were estimated based on relevant projections from Florida DOE.

** Estimated number of awards accounts for 83 percent of eligible students accepting the scholarship, based on the historical data.¹⁷⁴

Cost savings for future years (FY 2011-12 and FY 2012-13) would be slightly lower than the amount for FY 2010-11 due to the projected decline in the number of high school graduates: the same analysis would yield a savings of \$27.9-\$60.5 million in FY 2011-12 and \$28.5-\$61.7 million in FY 2012-13.

Recommendation: The Legislature should create a 20-30% cap on the number of high school graduates who shall be eligible for the Bright Futures Scholarship in addition to the existing eligibility requirements.

87. Expand K-12 virtual education

Education delivered virtually, rather than via a traditional classroom model, can provide savings in several areas: including transportation, utilities, and construction and maintenance of schools.

The expanded use of virtual education is also a viable, efficient and cost-effective way to address the challenges of meeting constitutional class size requirements and can serve to reduce or eliminate the need for new construction of additional schools. Considering the positive results of research conducted by Florida TaxWatch through the Center for Educational Performance and Accountability (CEPA) on the Florida Virtual School and the recent mandate that all districts offer K-12 virtual options, Florida is uniquely positioned to rapidly expand the level of students enrolled in virtual education. A requirement that 2.5-5% of all secondary students be served full-time in a virtual program would produce immediate savings. The requirement could be slowly increased to 15% over a period of four-to-six years.

Recommendation: Phase in requirements for every secondary student in Florida to take an online course. First year: Require every high school student to take an online course. Second year: Require 2.5% of student population to be enrolled in full-time virtual studies. Third year:

¹⁷⁴ *Ibid.*

Require 5% of public school student population to take full-time virtual education. Gradually increase the percentage every year thereafter until 15% is reached over a period of four-to-six years.

88. Implement a Web-Based Time-Keeping Application for K-12 through Higher Education System

Presently, high school students must track and report volunteer hours worked as part of their Bright Futures scholarship requirements. In addition, college students must track their internship hours and hours worked to meet certain degree work-experience requirements. Overall, the tracking of “student hours” is a laborious, paper/time-intensive task involving the processing of tens of thousands of paper timesheets and redundant data entry – in short, the current process is inefficient and time consuming.

Although cost savings could not be estimated, there would be a decrease in staff time which would produce cost savings. Also, the cost of the system (including the upfront implementation cost) could be off-set by selling advertisements on the website, or the costs could be entirely avoided by contracting with a private company to create and manage the website in exchange for a share of the advertising revenue.

Some educational institutions have implemented a web-based application to account for volunteer hours worked. The K-12 and higher education systems could increase efficiency and reduce costs by implementing a statewide web-based time-keeping application.

Recommendation: To reduce costs and improve operating efficiencies, the Legislature should require the Florida DOE to implement a statewide web-based application to account for volunteer hours/hours worked.



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Government Cost Savings Task Force

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The Office of the Florida Chief Financial Officer

**The leadership and staff of the Florida Senate
and Florida House of Representatives**



More information on the Government Cost Savings Task Force, including background and member information, media coverage of the Task Force, and updated status of implementation of the recommendations, as well as copies of this report, is available electronically at www.FloridaTaxWatch.org/costsavings

For more information on the Government Cost Savings Task Force or Florida TaxWatch, please visit:

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About Florida TaxWatch

Florida TaxWatch is a statewide, non-profit, non-partisan taxpayer research institute and government watchdog that over its 29 year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Its mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies, and programs, and to increase the productivity and accountability of Florida Government.

Florida TaxWatch's research recommends productivity enhancements and explains the statewide impact of economic and tax and spend policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policymakers and government employees implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than \$6.2 billion -- approximately \$1,067 in added value for every Florida family, according to an independent assessment by Florida State University.

Florida TaxWatch has a historical understanding of state government, public policy issues, and the battles fought in the past necessary to structure effective solutions for today and the future. It is the only statewide organization devoted entirely to Florida taxing and spending issues. Its research and recommendations are reported on regularly by the statewide news media.

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