The Disposition of Federal Dollars in Florida's Social Services:

Informing a Federal Funding Maximization Strategy

Final Report to
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EXECUTIVE SUMMARY

The foundering economy and the nation's wartime footing have exacerbated the stress on Florida's ability to provide social services, already placed there by soaring medical costs, a new state class-size amendment, a fiscally conservative state government, and an anti-tax electorate. Florida has traditionally sought to constrain the growth in social service spending and, in some instances, devolve program responsibility to the local level. State policy has consistently favored leveraging greater federal and local contributions with current state dollars over committing additional state dollars.

Scope of Study. Under a grant from the Florida Philanthropic Network, the Urban Institute agreed to examine Florida's efforts to maximize federal dollars in select social service programs over the past decade at the state level. The 11 programs were selected with consultation from the Network and are intended to represent the largest social services programs that Florida can readily maximize. These programs are Medicaid, the State Children's Health Insurance Program (SCHIP), Title IV-E Foster Care, Temporary Assistance for Needy Families (TANF), Social Services Block Grant (SSBG), Child Care Development Fund (CCDF), Maternal and Child Health Services Block Grant (Title V), Prevention and Treatment of Substance Abuse Block Grant, Community Mental Health Services Block Grant, Supplemental Security Income (SSI), and Food Stamps. When possible, comparisons are made with Georgia and South Carolina—states in the same region—and Texas as a national example.

Demographic Context. Florida is the fourth most populous state in the Union, with particularly large social service caseloads. It has the highest concentration of elderly residents of any state, the lowest concentration of children 18 and under, and has a very large immigrant population, few of whom can qualify for most federally-funded social service programs in the post-welfare reform era. Florida leads comparison states Georgia, South Carolina, and Texas in per capita personal income of $29,973 and also in per capita wealth of $45,059. Also, Florida has the fifth highest concentration of millionaires by population, at 1.8 percent. Thus far, Florida's resurgent tourism industry and its reliance on a sales tax have helped insulate the state from the fiscal woes felt elsewhere. Florida attracted a record number of tourists in 2002 and its unemployment rate, which jumped to 5.8 percent in the months after September 11, has since dropped to 5.3 percent for the first quarter of 2003—both rates below the national average at the time.

Fiscal and Political Context. According to the Center on Budget and Policy Priorities in Washington, DC, Florida's forecasted budget state revenue deficit for 2004 is 10.1 percent. Education has been the 800-pound gorilla in the current 2003-04 state budget debates. In trying to pass a $52.3 billion budget—which spends revenues from state, federal, and local sources—the legislature has been grappling with the class-size amendment. The legislature may make a number of cuts in less essential educational facilities and staff, as well as cuts in university and community college budgets while simultaneously raising tuitions. Raising traffic fines, dipping into state trust funds like motor fuels and alcohol, and expanding gambling in the state are also measures receiving scrutiny.

In 1998, Governor Jeb Bush, a Republican, replaced Governor Lawton Chiles, a Democrat. Both houses of the state legislature also became majority Republican, marking the first time since Reconstruction that both branches of state government have been Republican-controlled. Republican control has increased pressure to limit the growth of state government. Examples have been annual tax cuts since the mid 1990s, privatization of some programs, increasing requirements for local matches, and more concerted efforts to draw down federal funds, or spend 100 percent federal funds, such as in TANF, rather than increase state spending on matching programs like Title IV-E or Medicaid.

Florida's neighbors Georgia and South Carolina, and the national example Texas, have social service philosophies similar to Florida. All four states are low TANF benefit states with conservative outlooks on welfare, and all favor work-first policies over income maintenance in their welfare systems. While these states have had a mix of Democratic and Republican governors, the philosophy and tenor of social services have changed little over the past decade—each is adverse to expansive government, larger social service budgets, and larger, longer-term caseloads. Like the majority of states, each faces a potential budget shortfall in the 2004 fiscal year: Georgia at 5.8 percent; South Carolina at 13.6; and Texas between 13.1 and 25.5 percent, depending on how the deficit is allocated within its biennial budget.

Florida's revenue challenges exist in part because there is no income tax and the sales tax applies to some goods while exempting others, as well as exempting most services. As Florida and the nation have moved toward a more service-oriented economy over the past twenty years, the sales tax's base has likely eroded. Efforts to extend the sales tax to include more goods or services have met with stiff resistance in the state legislature. Florida's Department of Revenue has estimated that while the sales tax will raise $17 billion in state revenue in 2003, it will exempt $23 billion worth of products and services. Localities[1] have increasingly felt the need to provide services—and raise the requisite revenue—on their own.

The current confluence of fiscally lean times, mounting program costs, and a philosophy of limited government foretells program freezes if not cutbacks and certainly more aggressive leveraging of federal and local dollars. Different levels of government in Florida have begun maximizing in earnest to make an end-run around a flat revenue outlook. The state and the larger counties have sometimes been at odds over revenue maximization: the state seeking additional local contributions or reallocating current federal monies; the localities pushing for increased state spending and savvier claiming of local expenditures against federal programs. To this end, several of Florida's more populous counties having the largest affected service populations retained consultants specializing in federal revenue maximization in efforts to boost local receipt of federal funds and lobby the state for greater support in this endeavor. In the current fiscal climate, however, counties fear that any successes they have in revenue maximization may only further supplant state spending.

[1] By "localities," we mean not just counties but any local jurisdiction capable of levying taxes—such as a children's services council or a health care taxing district.

Florida as Net Donor or Net Recipient. Florida appears to be a net recipient of federal funds overall, although only slightly so. Different methodologies could easily produce different results. The four largest factors affecting Florida's "status"—Social Security spending, Medicare spending, defense spending, and comparably low state and local taxes (which lower the possible deductions from federal taxes)—are also the most difficult for the state to control. However, the larger question is the significance of this issue. Generally, poorer states are net recipients while richer states are net donors, and Florida, because of its concentrations of middle class elderly, wealthy households, and businesses, is not really a poor state.

Florida's Revenue and Expenditure Picture. Florida state revenue from its own sources—that is, excluding federal and local sources and trust funds—grew 45 percent, from $17.7 billion to $25.6 billion over the 1992-2001 period (in real 2003 dollars). General sales tax receipts, Florida's largest category of own-source revenue, rose from $10.2 billion to $15.1 billion, or 48 percent. Total state revenues in Florida—including intergovernmental transfers from federal and local government, insurance trust revenues, and the like—rose from $34.7 billion to $47.6 billion, a 37 percent rise or a 3.2 percent real increase per year. Intergovernmental transfers alone increased 74 percent, from $7.0 billion to $12.1 billion[2].

Between 1992 and 2003, total appropriations for state operating expenses increased 41 percent, from $30 billion to $42 billion. The Florida Appropriations Act classifies appropriations into six categories; education; human services; general government; judicial branch; criminal justice and corrections; and natural resources, environment, growth management, and transportation. Over this time period, total appropriations for human services were more than any other section, including criminal justice and corrections. Total appropriations for human services increased from $10.3 billion to $18.4 billion, or 78 percent. As a percentage of Florida's total operating expenses, human services appropriations increased from 34 to 44 percent. Total appropriations for criminal justice and corrections saw a 140 percent increase, from $1.3 billion to $3.2 billion. As a percentage of Florida's total operating expenses, criminal justice and corrections appropriations increased from 4 to 8 percent.

Florida spent $520 million in tobacco settlement monies in 2000 and $500 million in 2001; half the monies were spent on health care and an additional third were spent on children and adolescents. Specifically, in 2001, Florida's legislature tapped tobacco settlement revenues to fund the state's SCHIP program and community-based health care programs among others.

Federal Revenue Maximization. This we define as optimizing current and potential state and local spending to draw down the largest number of federal dollars. Our research led us to consider multiple and competing perspectives on federal revenue maximization. Broadly, there are three types of federal programs through which a state can receive federal social service dollars. The first is federal-state matching programs, like Medicaid or Title

[2] Note that many federal programs, such as Social Security, Medicare, and defense spending, bypass the

IV-E, where the state has to spend additional state (or local) funds to receive additional dollars of federal funding; or, the state can claim more of *current* state spending as eligible for matching funds. The second is block grant programs, such as TANF or CCDF, that require the state to spend a certain level of its own funds to receive the full federal grant, but then once received, the state can optimize how these funds are spent. The third is federally-funded, but state-administered, programs such as Food Stamps or SSI, where state and local outreach efforts can increase participation and the numbers of federal dollars flowing to individuals within the state. The concept of maximization means something different in each of these types of programs.

From the state government perspective, revenue maximization often means just spending less state general revenue and more federal and/or local revenue. A state that currently spends a certain amount of general revenue on a federal program resists spending more than that amount. Localities have the same incentives as the state, but are often not in the driver's seat. Localities will naturally balk at scenarios where increased local revenues are meant to supplant state general revenues, with no net gain in federal funds. From a local perspective, any additional local or federal funds should be used to expand a program, not relieve the burden on state general revenue.

Several additional concerns that confront localities but not the state are as follows. The first is the administrative burden that comes with increased responsibility for program financing and management. Federal reporting requirements, while necessary, are notoriously complex and burdensome and the requisite computer systems, skill base, and institutional capacity may not find economies of scale at the local level as they do at the state level. Second, related to the issue of supplantation, increased local contributions and the federal dollars they leverage may not always return to the locality of origin if the state redistributes some measure of the federal largesse to poorer counties that lack the means to come up with the match. Third, while counties may establish special taxing districts to backstop low state social service spending, the revenues so raised may supplant other *local* financing of social services.

Medicaid. Total spending on Medicaid in Florida grew from $4.8 billion to $9.1 billion, or 87 percent over 1992-2001. The federal portion increased from $2.7 billion to $5.2 billion (96 percent) while the state portion rose from $2.2 billion to $3.9 billion (77 percent). The drivers of this recent growth are increased enrollment, as a consequence of outreach efforts in the relatively new SCHIP program and in the transitional Medicaid program; growth in health- and community-based care funding; and soaring prescription drug care costs. This budgetary behavior is in stark contrast to the policy picture: the expansive nature of health policy initiatives under Governor Chiles gave way to more focused policy initiatives for vulnerable populations such as low-income children, the disabled, and the elderly after Governor Bush took office in 1998.

In the course of this study, we interviewed staff at state health associations, hospitals, and other providers who discussed some possible options for additional maximization under Medicaid. These options fall under the following headings.

- Disproportionate Share Hospital (DSH) and Upper Payment Limit (UPL) programs
- Florida's proposed physician UPL program
- Targeted Case Management
- More community-based emergency care
- Community support services
- State definitions of allowable Medicaid services
- Community-based rehabilitation models
- HMOs or monthly premiums in lieu of fee-for-service
- Billing innovations and efficiencies
- Funding graduate medical education through the UPL program

It is difficult to estimate the federal sums available if the state and localities pursue maximization. This wholly depends on the willingness of jurisdictions to spend on Medicaid versus some other priority. Also to be factored in are the costs and time of scouting out all the facilities and programs that Medicaid might cover, county by county, and developing the institutional capacity to properly bill for Medicaid services in each jurisdiction as well as successfully enroll and validate additional eligible persons.

State Children's Health Insurance Program. Florida has the third largest SCHIP program in the nation. Participation was initially slowed by backlogs and delays in the enrollment process and, more recently, financial short-falls that prevented some counties from making the local match for SCHIP—this last problem is still an issue. In 2001, the state used Tobacco settlement monies to close the funding gap.

While the SCHIP program in Florida is funded well enough to cover current enrollment, local taxing districts fear the state may cut back on the income range of effective coverage from 200 percent of FPL to 150 percent or simply cap enrollment. South Carolina's legislature is considering lowering the 200 percent FPL and age-21 limit to 150 percent or even 100 percent FPL and an age-18 limit. Often, the same strategies for maximization under Medicaid apply to the SCHIP program.

Title IV-E. With respect to spending on child welfare services, state general revenue was two-thirds of total spending in 1991 ($199 million), while spending from federal funds totaled $99 million, mostly from Title IV-E Foster Care.[3] In 2000, spending from federal sources was $443 million, while state spending had increased to $284 million, or 39 percent of total spending. The Department of Children and Families (DCF) made a concerted effort, and was successful in improving federal revenues for child welfare services. Furthermore, in 2000, DCF began using TANF funds to cover the first year of care for all

state treasury and go directly to individuals or facilities and so are not recorded as *state* revenues.

[3] In addition to titles IV-B, IV-E, and IV-A Emergency Assistance (EA), this includes Title XVI Supplemental Security Income (SSI), Title XIX Medicaid, Title XX Social Services Block Grant (SSBG), and Child Abuse and Neglect Grants. It is important to note that these numbers represent spending for all child welfare services, not just for costs associated with children in foster care. However, the largest federal

children in foster care, using 100 percent federal funds instead of spending general revenue to claim Title IV-E funds.

Temporary Assistance for Needy Families. With the advent of federal welfare reform and the influx of federal money that came with it, Florida saw a 45 percent increase in spending on TANF/Aid to Families with Dependent Children (AFDC) programs.[4] Between 1991 and 2001, combined federal and state spending on all programs under TANF/AFDC (excluding child care) increased from $657 million to $949 million. Federal spending increased 60 percent while state spending increased 26 percent in this same time period. However, in the post-welfare reform era, spending from state funds has continued to decline each year, while more federal dollars are used. Florida, like other states, began spending less in general revenue while spending down to its required maintenance of effort of $368 million. Moreover, as caseloads continued to decline, more funds were spent on services for employed families, such as job training and pregnancy prevention, and less so on assistance for unemployed families, such as cash assistance and transportation.

Social Services Block Grant. The continual cuts at the federal level in SSBG have deflated the value of this funding stream to social service programs. Pure SSBG spending in Florida has declined 41 percent, from $164 million in 1995 to $96 million in 2000. However, with federal welfare reform and the creation of TANF, states are allowed to transfer up to 10 percent of TANF funds to SSBG. When calculating the change in SSBG spending including the TANF transfers, there was a 15 percent increase between 1995 and 2000—from $164 million to $188 million.

Child Care Development Fund. In Florida, the effects of welfare reform on child care spending are clear. Prior to welfare reform (1991-96), total spending on child care increased 20 percent. However, between 1991 and 2001, total spending increased 250 percent from $119.3 million to $417.9 million. In that same time period, federal spending on child care (from all former AFDC programs and CCDBG) increased 314 percent ($83.7 million to $346.7 million), and state spending increased 100 percent ($35.6 million to $71.2 million).

Maternal and Child Health Block Grant. Data received from the Florida Department of Health (DOH) for 1996-2001 indicate that total formula grant spending declined 22 percent from $367 million to $286 million due to decreases in state spending. State spending declined 18 percent, from $295 million to $241 million. Federal allocations and spending continued to increase during this period, while budgeted state funds increased but expenditures declined. That is, the program was continually budgeted for more than was actually spent from state funds. However, the state continually spent state funds beyond its match for each of these years. Consistently over this time period, the state share of total formula grant spending was between 80 and 89 percent.

source of spending was still from Title IV-E Foster Care.
[4] The creation of TANF ended the Aid to Families with Dependent Children (AFDC) program and rolled

Private Dollars for Public Services. A measure that just passed both houses of Florida's state legislature (Senate Bill 1454, 2nd engrossed) would allow private charities like the United Way, foundations, and even businesses to donate monies to make up the local portion of state matches for social service programs. Under the legislation, organizations would donate funds to a county government or special taxing district where these funds can be certified as local match and be counted as state spending against which to draw down federal funds. It appears that the governor will sign the bill and the law would become effective for July 1, 2003.

The process in practice is always more complicated than in theory. A number of issues will need to be addressed if the partnerships among donors, counties, the state, and the federal government are to remain whole. While the legislation stipulates that the state will not redistribute or use locally certified donations to supplant state spending, what safeguards really exist? The bill allows some private entities to make donations and, presumably, receive these donations plus leveraged federal funds in return, but this may conflict with prior federal rulings. How will the law address ethical issues with donor intent? Who will monitor a donor's request for the use of funds against how those funds are actually applied? What are donors' rights if the state or county diverts the donated money and the federal sums it leveraged?

We are not aware of any statewide estimates on the volume of funds that this donation program would raise or leverage. In South Carolina, which runs a similar program, the level of donor-financing has reached $12 million, leveraging $27 million of federal spending.

Principal Findings. This study examines ten years of revenue and expenditure trends in Florida's social service programs and reports on the state's efforts to maximize federal revenues. The study was a broad, bird's eye view from the state level and its findings are likewise broad.

1. The state's lean tax structure and philosophy of limited government threaten current social service budgets and shut off some avenues of revenue maximization. If current economic, fiscal, and political pressures persist, an even greater decline in the state's funding of social services is likely—unless counties and local taxing districts fill in the breach—with possibly adverse impacts on poverty rates and on specific groups among the vulnerable, such as children, the elderly, and the undocumented.
2. To live within the current political and budgetary frameworks, it is likely localities will need to take the initiative to expand and even to backstop social service programs. These initiatives may include increasing pursuit of federal dollars or raising additional finances on the local level.
3. Florida appears to be a net recipient of federal funds overall, although only slightly so. Different methodologies could easily produce different results. The four largest factors affecting Florida's status as net donor or net recipient—Social Security spending, Medicare spending, defense spending, and comparably low state and local taxes (which lower the possible deductions from federal taxes)—are also the most difficult for the state to control. However, the larger question

is whether being a net donor or recipient is really meaningful. Generally, poorer states are net recipients while richer states are net donors, and Florida, because of its concentrations of middle class elderly, wealthy households, and businesses, is not really a poor state.

4. Local leaders and social service advocates assert that the state has often failed to draw down additional available federal funds, and while these assertions may be true, it is difficult to quantify the sums of money "left on the table." In evaluating Florida's efforts, successful or otherwise, to draw down additional federal funds, a number of considerations require scrutiny.
    a. Was the goal of a revenue maximization initiative to expand program coverage, access, or benefits, or simply to increase the share of federal funds financing the current program?
    b. For federal programs that require a state match, did the funds for a state and local match exist? If a local match was needed, was it sufficiently broad-based, (e.g., from a local taxing district versus a community hospital)? What other state and local spending priorities would be affected if these matching funds needed to be raised?
    c. For newer programs such as SCHIP that are still enrolling clients, were enough children and families enrolled to claim the full allotment? What would it cost the state or localities to validate and enroll more eligible persons and how long can this reasonably be expected to take?
    d. For localities interested in pursuing revenue maximization, are the billing, reporting, and client validation mechanisms in place to allow proper processing of federal claims? If not, how much would it cost to develop these mechanisms relative to the sums of money that could be claimed and how long will it take to put these mechanisms in place? As a fraction of the current revenues of a federal program flowing into Florida, would the added sums from a revenue maximization effort, minus the costs and time of pursuing that effort, have been significant?
    e. It is difficult to ascertain whether other states are "doing a better job" than Florida at maximizing because aside from adjusting for populations, caseloads, and program budgets, one would need to account for all state and local spending by program, subprogram, facility, and so on, where maximization could take place.
    f. The pursuit of revenue maximizing policies should not side-step a cautious analysis of federal intent and inquiries with the proper federal authorities. The legality of proposed maximization efforts and the consequences of federal disallowances or sanctions should be considered at every turn. Jurisdictions that hire "rev-max" consulting firms still bear the legal consequences of policies they enact and must also subtract nontrivial consulting fees from the net gains of revenue maximization efforts.
5. Primarily federal programs such as Food Stamps and SSI provide benefits directly to recipients, although the state helps administer the programs. Participation rates in these programs, particularly Food Stamps, are significantly lower than they

could be in the state and across the nation owing to stigma and limited state and local outreach efforts, among other factors.

6. This study does not evaluate revenue maximization at the county level. However, our research into the dynamics of local match formation points up several concerns:
    a. The money and time localities must spend to ferret out maximization opportunities and develop the locally-based institutional capacity to draw down federal funds;
    b. The possibility that leveraged local dollars will displace not only state funds but also other, un-leveraged local funds;
    c. The ineluctable redistribution issues that will arise between localities with comparable needs but incomparable means; and
    d. The legal intents behind the various federal formulas and block grants available and the downside of maximization initiatives that conflict with the spirit or the letter of these intents.
7. Floridians must weigh whether revenue maximization is best managed at the state or the local level. On the one hand, because of cost and efficiency concerns, revenue maximization on a federal program-by-program basis might be better pursued, coordinated, and implemented by the state than by each county on its own. Additionally, it is the state that is held responsible for any spending on unallowable activities. However, with any program administered at the state level, the likelihood of redistribution and perhaps supplantation rises without adequate safeguards established in law.