

SEPTEMBER 2016

## Florida is Still a Donor State *Ranks Dead Last in Federal Grant Funding*

The federal government plays an important role in helping Florida pay for the government services it provides, as federal funds make up 34 percent of the current state budget.<sup>1</sup> But Florida gets much less from Uncle Sam than most states. Even with Florida's relatively low level of state taxing and spending, there are 28 states that receive a larger proportion of total state revenue in federal funds.<sup>2</sup>

Over the years, Florida TaxWatch has produced several reports examining how Florida fares, relative to other states, in receiving grants and aid from the federal government. Consistent with our past research, this new analysis shows Florida continues to receive far less than its fair share of federal grant dollars.

In 1998, Florida ranked 49th<sup>3</sup> among the 50 states in terms of federal grants received per capita.<sup>4</sup> A 2011 report showed Florida had increased its relative share of federal aid slightly, rising to 48th.<sup>5</sup>

Since Florida TaxWatch began tracking Florida's federal grants in 1996, the state has never ranked higher than 43rd (2003 and 2005).

This new Florida TaxWatch analysis reveals that Florida now ranks last in the nation in per capita federal grants received (FY2014-15).<sup>6</sup>

Florida also fares poorly when grant receipts are viewed relative to federal taxes paid. Relative to its portion of total federal taxes paid, Florida pays \$1.58 in taxes for each dollar returned in aid—the second highest premium in the nation.

The federal government distributed \$617.0 billion<sup>7</sup> in grants during FY2014-15, and Florida received \$22.8 billion of those grants. The vast majority go to Florida's state government, local governments, and universities. A relatively small amount goes to private organizations (both non-profit and for profit) to carry out a public project or service authorized by federal law. Nearly half (\$10.7 billion) of Florida's grants go to the Florida Agency for Health Care Administration, mostly to help fund Florida's Medicaid program.

1 The Florida Legislature, *Fiscal Analysis in Brief—2016 Legislative Session, August 2016*.

2 Florida TaxWatch calculations using data from the U.S. Census Bureau, FY2013 (latest available data).

3 Second lowest amount of federal grants per capita.

4 Florida TaxWatch, *Federal Grants Still Shortchanging Florida, September 1998*.

5 Florida TaxWatch, *Florida Remains a Donor State Even Through The Great Recession, January 2011*.

6 Unless otherwise noted, all data in this report is from the U.S. Department of Treasury (USASpending.gov), with calculations by Florida TaxWatch.

7 \$591.7 billion went to the 50 states, the rest went to Washington D.C. and the U.S. territories.

Other big recipients are the departments of Education, Transportation, Children and Families and Agriculture and Consumer Services. Of the approximately 1,000 Florida recipients, these five state agencies receive more than three-fourths of the total dollars.

Grants do not include payments to contractors hired by the federal government, federal loans, or direct payments to individuals such as Social Security, Medicare, food stamps, and unemployment benefits. When these disbursements are included, Florida ranks 29th in per capita federal spending. This is largely due to Florida's large number of elderly. Floridians received \$67.9 billion in Social Security benefits in FY2014-15.

Firms in Florida received \$13.6 billion in government contracts in FY2014-15. While this is the sixth largest total in the nation, it translates into a per capita ranking of 31st, and the per capita amount is only 57 percent of the U.S. average.

## PER CAPITA GRANTS

The \$22.8 billion in federal grants received by Florida amounts to \$1,125 for each Floridian. This is the lowest amount in the nation, and is only 60.9 percent of the national average of \$1,845. Florida's per capita grant receipts are also lower than in 2009, when they were \$1,224.

The other states in the bottom five of per capita grant receipts are Virginia (\$1,179), Georgia (\$1,182), Utah (\$1,202), and Illinois (\$1,328). The top five states for per capita receipts are Alaska (\$4,498), Vermont (\$3,301), New Mexico (\$3,101), New York (\$3,075), and Rhode Island (\$2,838). The top states have historically tended to have relatively smaller populations. But New

PER CAPITA FEDERAL GRANT RECEIPTS FY2014-15					
1	Alaska	\$4,498	26	Mississippi	\$1,836
2	Vermont	\$3,304	26	Tennessee	\$1,835
3	New Mexico	\$3,101	28	Minnesota	\$1,817
4	New York	\$3,075	28	Missouri	\$1,803
5	Rhode Island	\$2,838	28	Iowa	\$1,778
5	West Virginia	\$2,743	31	Nevada	\$1,754
7	Oregon	\$2,620	32	Oklahoma	\$1,754
7	Massachusetts	\$2,602	32	Ohio	\$1,745
9	Arkansas	\$2,494	32	New Hampshire	\$1,685
10	Montana	\$2,419	35	Colorado	\$1,673
11	Delaware	\$2,336	35	Wisconsin	\$1,647
12	North Dakota	\$2,330	35	Idaho	\$1,611
12	Maine	\$2,289	38	North Carolina	\$1,579
14	Connecticut	\$2,265	39	Kansas	\$1,570
14	Kentucky	\$2,178	39	Indiana	\$1,524
16	Pennsylvania	\$2,103	41	Texas	\$1,494
17	California	\$2,075	41	Nebraska	\$1,480
18	Washington	\$2,070	41	Michigan	\$1,412
18	Wyoming	\$2,031	44	Alabama	\$1,380
20	New Jersey	\$2,016	45	South Carolina	\$1,348
20	Louisiana	\$1,990	45	Illinois	\$1,328
22	Maryland	\$1,950	45	Utah	\$1,202
23	Arizona	\$1,945	48	Georgia	\$1,182
24	South Dakota	\$1,940	48	Virginia	\$1,179
25	Hawaii	\$1,916	50	<b>Florida</b>	<b>\$1,125</b>
	<b>US Average</b>	<b>\$1,845</b>			

*Includes federal grants to state governments, local governments, educational institutions and private organizations. Source: Florida TaxWatch, from U.S. Department of Treasury data, available at USASpending.gov, September 2015.*

York has risen to 3rd (from 23rd in 2009) and California ranks 17th. The other large state—Texas (41st)—ranks closer to Florida. Washington, D.C. and the U.S. Territories also receive more grants per capita than Florida.

The revenue impact of Florida's low ranking is substantial. If Florida received the national average in per capita grants for FY2014-15, the Sunshine State would have received an additional \$14.6 billion in federal grants.

## GRANTS RECEIVED RELATIVE TO TAXES PAID

Florida is also not receiving a fair share of federal funds when grants are viewed as a return on federal taxes paid. Of course, not all federal tax revenues are returned to the states in grants. But a grant “cost” can be calculated by comparing a state's ratio of total federal taxes paid to its ratio of grants received. This comparison also reveals that Florida is a significant donor state, paying a premium for its grants.

Florida contributed \$177 billion in federal taxes in FY2014-15, which is 5.44 percent of the total contributed by all states;<sup>8</sup> however, our state only received 3.86 percent of the federal grants. Using this measure, Florida paid \$1.58 for every \$1.00 of aid received in the form of grants.<sup>9</sup> Florida is currently, and has been, providing funding for programs in other states.

The 2011 Florida TaxWatch analysis showed the state's cost for grants had been improving—decreasing from \$1.46 in 1997 to \$1.14 per dollar of aid in 2009.<sup>10</sup> The latest data shows that trend has reversed.

<sup>8</sup> Internal Revenue Service, *2015 Data Book*.

<sup>9</sup> Florida TaxWatch calculations using IRS and U.S. Department of the Treasury data.

<sup>10</sup> Florida TaxWatch, *Florida Remains a Donor State Even Through The Great Recession*, January 2011.

### TAX BURDEN FOR EACH \$1 IN FEDERAL GRANTS FY2014-15

1	Nebraska	\$1.63	26	Iowa	\$0.95
2	<b>Florida</b>	<b>\$1.58</b>	26	Mississippi	\$0.92
3	Illinois	\$1.53	28	Pennsylvania	\$0.91
4	Delaware	\$1.52	28	Wyoming	\$0.90
5	Georgia	\$1.51	28	Maryland	\$0.89
5	Virginia	\$1.47	31	Idaho	\$0.88
7	Texas	\$1.38	32	Louisiana	\$0.88
7	Utah	\$1.37	32	California	\$0.86
9	Minnesota	\$1.31	32	Hawaii	\$0.85
10	Oklahoma	\$1.30	35	South Dakota	\$0.83
11	New Jersey	\$1.30	35	Washington	\$0.78
12	Kansas	\$1.20	35	Massachusetts	\$0.77
12	Alabama	\$1.19	38	Arizona	\$0.74
14	Michigan	\$1.17	39	Kentucky	\$0.73
14	Connecticut	\$1.15	39	New York	\$0.71
16	Indiana	\$1.12	41	North Dakota	\$0.70
17	South Carolina	\$1.09	41	Maine	\$0.61
18	Colorado	\$1.01	41	Arkansas	\$0.60
18	Tennessee	\$1.01	44	Rhode Island	\$0.59
20	Nevada	\$1.01	45	Montana	\$0.56
20	New Hampshire	\$1.00	45	West Virginia	\$0.55
	<b>US Average</b>	<b>\$1.00</b>	45	Oregon	\$0.51
22	Ohio	\$0.98	48	Vermont	\$0.49
23	North Carolina	\$0.98	48	New Mexico	\$0.48
24	Wisconsin	\$0.98	50	Alaska	\$0.36
25	Missouri	\$0.95			

*Calculated by dividing the percentage of total federal taxes paid by the percentage of total federal grants received. Source: Florida TaxWatch, using data from U.S. Department of Treasury and the Internal Revenue Service, September 2016.*

Florida, along with 21 other states, paid a premium for aid in FY2014-15. Florida ranked 49th, getting a better return than only one state—Nebraska (\$1.63). The other states in the bottom five are Illinois (\$1.53), Delaware (\$1.52), and Georgia (\$1.51). Twenty-eight states<sup>11</sup> paid less than \$1.00 for every dollar of aid they received. Alaska got the best “bargain,” paying \$0.36 on the dollar for federal aid. New Mexico (\$0.48), Vermont (\$0.49), Oregon (\$0.51), and West Virginia (\$0.55) round out the top five.

If Florida had received a share of federal grants equal to its share of federal taxes paid, Florida would have received \$32.2 billion in grant money. That is about \$9.4 billion more than it actually received.

## TRANSPORTATION FUNDING IS AN EXAMPLE OF FLORIDA'S GRANT DEFICIT

Adequate funding for transportation is very important to Florida, and it can have a big impact on both quality of life and economic development.<sup>12</sup> Federal dollars are a vital component of this funding in Florida (and every state). Transportation is among the top three grant recipients in Florida, trailing only Medicaid, and often education. Unfortunately, this has been a historically glaring example of our state's grant deficit.

In addition to state gas taxes and other fees it raises itself, Florida receives approximately \$2 billion<sup>13</sup> from the federal government.

This is part of regular disbursements from the Federal Highway Trust Fund (FHTF) to the 50 states, the District of Columbia, and the U.S. Territories. The FHTF is funded by the federal gas tax and excise taxes on tires, trucks, buses, trailers, and heavy vehicle use. The money is dispersed by formula and, historically, those formulas have not been kind to Florida. Along with the fact that many states have reduced their state transportation funding, this contributes to Florida receiving only 26 percent of its funding for its work program from the federal government, one of the lowest percentages in the nation.<sup>14</sup>

Since the federal government often adds general funds into the trust funds, states usually get back more than they contribute, although Florida has been a donor state (receiving less than it contributed) in some years. In 2014, Florida contributed \$1.739 billion in federal transportation taxes into the Federal Highway Trust Fund (FHTF) and received \$1.874 billion back in federal aid. This is a return of \$1.08 per dollar contributed, the 36th highest return in the nation. And 2014 was a relatively good year for Florida. In the aggregate, the state's return over the history (since 1956) of the FHTF is \$1.03.

Since 2006, Florida's total return has been \$1.14, the nation's 4th lowest amount. This is less than all the other largest states except Texas. California brings home \$1.26, New York \$1.40, Illinois \$1.24, and Pennsylvania \$1.38. Although Florida's allocations go up and down, growth of these revenues has not kept pace with inflation.

Florida's allocation growth of 9.3 percent since 2006 is just more than half the inflation rate of 18.1 percent.<sup>15</sup> Looking at it another way, since 2006,

11 New Hampshire broke even, paying \$1.00 in taxes for each \$1.00 of aid.

12 Florida TaxWatch, *Meeting Florida's Transportation Investment Needs*, February 2016.

13 The amount of federal transportation funding varies each year but has averaged \$2.02 billion over the past ten years. Calculations by Florida TaxWatch using data from the Federal Highway Administration, Comparison of Federal Highway Trust Fund receipts attributable to the States and Federal-aid apportionments and allocations from the highway account, August 2015.

14 Florida Department of Transportation, Work Program Overview 2016-2020.

15 Calculations by Florida TaxWatch, using data from the Federal Highway Administration's Highway Statistics Series and the Florida Legislature's Office of Economic and Demographic Research

Florida has contributed 5.3 percent of the taxes and received 4.7 percent of the allocations (although the total amount Florida has received is larger than the amount it contributed due to the General Revenue additions). If Florida had received a percentage of allocations equal to its percentage of contributions, the state would have received \$2.314 billion more--an average of \$257 million more per year.<sup>16</sup>

## WHY DOES FLORIDA CONTINUE TO SUBSIDIZE OTHER STATES?

There are a number of factors that determine how much a state receives in federal grants. A state's spending decisions do have some impact. If Florida spends less in matching programs, it will get less aid. Florida has a history of lower-than-average revenue and spending at the state level<sup>17</sup> and this is part of the reason for lower-than-average federal funding.

A current example is Florida's decision to forego Medicaid expansion in 2015 and the increased federal funding share that went with it. It was estimated that expansion would draw down more than \$3 billion in additional federal dollars to Florida annually. An alternative to the federal Medicaid expansion (SB 2512) that was passed by the Florida Senate but rejected by the House in 2015 would have brought in more than \$1.5 billion in additional federal funds annually.<sup>18</sup>

Florida should not spend state money simply for the purpose of acquiring more federal funds, but it should do everything possible to maximize federal funding within the state's spending decisions.

It is the decisions made in Washington that have the most impact on grant "fairness" and there is ample evidence that Florida is not treated equitably. The formulas used to distribute grants hurt Florida. Some grants are awarded through a competitive process but most use formulas to allocate funds. Most of the large programs use decennial census data on population and income.<sup>19</sup> While some use annual estimates, many do not. The use of outdated population data disadvantages a growth state like Florida. Even the use of annual estimates (which are based on the decennial census) can hurt Florida through undercounting. Florida had the fourth largest undercount during the 2000 Census.<sup>20</sup> Small state minimums can also reduce funding for populous states and hold-harmless provisions can keep states like Florida from catching up.

The formulas have proven hard to change. It often seems that federal allocations are governed by old fashioned politics and maintenance of the status quo. "Congressional support to revise funding formula inequities may be difficult to obtain if other states stand to lose federal funds under revised formulas that benefit Florida."<sup>21</sup>

While grant formulas may not be beneficial to Florida, the state also lacks effective and proactive mechanisms for maximizing the drawdown of available federal funds, which is costing the state hundreds of millions of dollars in federal assistance.<sup>22</sup>

<sup>16</sup> All calculations by Florida TaxWatch, using data from the Federal Highway Administration's Highway Statistics series.

<sup>17</sup> Florida TaxWatch, *How Florida Compares series*.

<sup>18</sup> Florida Legislature, Office of Economic and Demographic Research, *Impact Analysis: LIP, IGTGS and SB 2512, April 21, 2015*.

<sup>19</sup> United State Government Accountability Office, *Funding for the Largest Federal Assistance Programs is Based on Census-Related Data and Other Factors*.

<sup>20</sup> Price Waterhouse Coopers, *Final Report to Congress: Effect of Census 2000 Undercount on Federal Funding to States and Selected Counties, 2002-2012*.

<sup>21</sup> Florida Legislature, Office of Economic and Demographic Research, *Review of Federal Funding to Florida in Fiscal Year 2009, March 2011*.

<sup>22</sup> The Florida TaxWatch Center for Government Efficiency, *Annual Government Efficiency Recommendations, 2015*.

Florida lacks a centralized system for securing federal grants. In 2009, Florida's Chief Financial Officer (CFO) issued a report with 10 recommendations intended to enhance coordination among key state agencies and increase awareness of the federal grant process.<sup>23</sup> These recommendations include: strengthening the state's grants clearinghouse by moving it from the Department of Environmental Protection to the Governor's Office of Planning and Budget; having the CFO be part of the clearinghouse; and increasing coordination between the clearinghouse, Florida Washington Office, and Florida's Congressional delegation. These recommendations have not been addressed.

In addition, the Florida Legislature's Joint Legislative Committee on Intergovernmental Relations (LCIR), which the CFO cited as a key resource for aiding state agencies and local governments in applying for federal grants and maximizing federal grant funds, was not funded by the 2010 Legislature and has ceased operations.

The CFO report also included a Florida TaxWatch recommendation to consider contracting with third parties that can perform comprehensive evaluations of federal funding opportunities. In 2003, the CFO's office issued a five-year (competitively selected) contract to find and help secure federal funds to which the state was already entitled. Under this contract, the state collected approximately \$150 million with a minimal amount of effort and incurred no out-of-pocket costs to secure the funds. However, there likely remains hundreds of millions of dollars of federal money to which Florida is legally entitled.

The state should 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 as well as provide incentives for the agencies to maximize available grants.

## CONCLUSION

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

However, Florida is at the bottom in terms of its relative share of federal grants and it has been there for many, many years. It would be hard to argue that Florida's share is anywhere close to equitable.

Again, Florida should not spend additional state money solely to draw down more federal funds. Florida will probably never become a net receiver of federal grants, but it should do everything possible to maximize federal funding within the state's spending decisions.

Florida's Congressional delegation should continue to fight the tough battle to increase the equity and accuracy of grant formulas. But it is improving Florida government's grant seeking efforts that holds the most promise in securing Florida's fair share of federal grants.

<sup>23</sup> Department of Financial Services. "Initial Recommendations for Maximizing Federal Funding for the State of Florida." March 3, 2009.

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

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