

THE FLORIDA LEGISLATURE
OPPAGA



OFFICE OF PROGRAM POLICY ANALYSIS & GOVERNMENT ACCOUNTABILITY

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**The Government
Operations policy area
includes**

- Agriculture and Consumer Services
- Business and Professional Regulation
- Citrus
- Community Affairs
- Environmental Protection
- Financial Services
- Fish and Wildlife Conservation Commission
- Governor's Office of Tourism, Trade, and Economic Development
-Enterprise Florida
-Florida Commission on Tourism
- Highway Safety and Motor Vehicles
- Management Services
- Military Affairs
- Public Service Commission
- Revenue
- State
- State Board of Administration
- Water Management Districts
- Workforce Innovation

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Government Operations Summary of 2011 Reports

State Board of Administration

Florida Growth Fund Investments Increase; Additional Data Needed to Estimate Economic Benefit, Report No. [11-26](#), December 2011. As of October 28, 2011, the Florida Growth Fund had invested \$176.5 million in 15 technology and growth companies and 11 private equity funds. Altogether, these investments have had a net internal rate of return of 23% since the fund's inception; the state would have to sell all or part of an investment that has increased in value to realize an actual return. Based on the fund's performance, the prospects for future investment opportunities, and an independent review of the fund manager, the SBA has authorized the investment of an additional \$250 million.

As of January 2011, eight of the technology and growth companies reported that they had created 451 jobs since the fund's inception. However, additional information is needed to conduct a comprehensive analysis of the investments' direct and indirect economic benefits. This data includes average employee wages, revenues, and capital investments. The fund manager will attempt to collect this data for use in future reports.

Compared to Other States, the Pension Plan Is Better Funded, Incurs Lower Investment Fees, and Has Fewer Trustees; Investment Returns Are Average, Report No. [11-10](#), February 2011. State Board of Administration (SBA) managers have consistently met investment goals for both the Florida Retirement System Pension Plan and Investment Plan, but the SBA's results are average compared to the investment performance of other states. The Pension Plan currently has a funding ratio of 87.9%, and at this time does not have sufficient assets needed to pay current and future expected benefits for participants and their beneficiaries. However, experts generally consider public pension plans with funding ratios at or above 80% to be fiscally sound. The SBA's external manager and brokerage fees are below the average fees paid by other states.

The SBA's three-member board of trustees is smaller than the oversight boards of almost all other states. The SBA has procedures in place for overseeing its investment managers. However, the SBA and the Division of Retirement could improve their reporting on state pension plans by developing a single annual report that

provides policymakers with comprehensive financial, investment, actuarial, and statistical information.

Department of Environmental Protection

Over 600 Brownfield Acres Cleaned Up; Businesses Take Advantage of Program Incentives, Report No. [11-15](#), April 2011. Among Florida's 259 brownfield areas, 46 contaminated sites encompassing 629 acres have been cleaned up since the Brownfields Redevelopment Program began in 1997. Participants have received \$24.6 million in incentives since the program's inception, using them to create 3,628 direct jobs and make \$56.9 million in capital investment. However, stakeholders report concerns about the Voluntary Cleanup Tax Credit backlog and eligibility restrictions on the sales tax refund for building materials.

We identified several options the Legislature may wish to consider for the program. These include discontinuing the program to create long-term savings, modifying incentives to reduce state costs and risk, modifying program incentives to encourage participation, and continuing the program as established.

Department of Financial Services

Steps Could Be Taken to Reduce the Public Hurricane Loss Projection Model's Reliance on State Funding, Report No. [11-25](#), December 2011. The Office of Insurance Regulation is the public hurricane loss projection model's primary user. The model, which was developed by Florida International University and its partners, provides the office an independent benchmark tool for reviewing the reasonableness of rates proposed in insurer filings.

The public model's operation and maintenance is supported primarily by state funds. In Fiscal Year 2010-11, Florida International University received \$588,409 from the Office of Insurance Regulation, most of which is used to support the model's routine operation and maintenance. During the same period, 12 private insurers paid the university

a total of \$129,338 to use the model; these fees only covered the cost associated with providing requested services. The direct expenditures for operating, maintaining, and updating the public model were \$723,937 in Fiscal Year 2010-11.

To further increase private funding for the model, the university could market the model or enhance the model to make it more useful to private insurers. The Legislature could also consider several options for the public model: discontinue state funding, reduce state funding as it is offset by increasing fees paid by insurers, or continue the current funding arrangement.

Executive Office of the Governor

Research Commercialization Matching Grant Program Underway; Additional Performance Data Needed, Report No. [11-20](#), November 2011. The state's Research Commercialization Matching Grant Program awarded \$2.7 million to 13 companies in January 2011. While federal funds are restricted to research and development activities, state grants may be used to pay for commercialization and marketing activities. The companies used state grants to advance the schedule for commercializing their products, but have created few jobs due to the relatively recent implementation of the program.

The program currently requires grant recipients to report performance outcomes, such as the amount of funding received, number of inventions, patents and copyrights awarded, and number of jobs created. We concluded that these measures are appropriate for evaluating program outcomes, but recommend that additional measures be added to evaluate grant recipients' long-term commercialization efforts.

Few Businesses Take Advantage of Enterprise Zone Benefits; the Legislature Could Consider Several Options to Modify the Program, Report No. [11-01](#), January 2011. Over the past five years, Florida's Enterprise Zone Program awarded \$187 million in incentives, most of which went to businesses in Miami-Dade County. Program participation remains relatively low in most enterprise zones, limiting progress toward achieving

the legislative goals of revitalizing distressed areas and increasing employment of area residents.

The Legislature could consider several options for modifying the program, including

- encouraging greater participation by lowering incentive eligibility thresholds;
- focusing on job creation by eliminating all incentives except jobs tax credits;
- establishing a one-year program moratorium on awarding incentives to save an estimated \$18 million in Fiscal Year 2011-12;
- abolishing the program to save an estimated \$18 million annually; or
- allowing the program to sunset on December 31, 2015.

Department of Management Services

Florida Retirement System Pension Plan Valuation Met Standards, Report No. [11-17](#), May 2011. This report discusses issues related to the state's retirement programs. Our actuarial consultant, Gabriel Roeder Smith & Company, concluded that the 2010 valuation was made in accordance with relevant state laws and rules and actuarial standards. It further concluded that the assumptions and methods used in the valuation were generally reasonable. However, our consultant made several observations.

- The actuarial value of the pension fund was \$120.9 billion, with an unfunded actuarial liability of \$16.7 billion as of July 1, 2010.
- The 2010 valuation does not take into account an assumption for the probability that system members will participate in the Deferred Retirement Option Program (DROP) and may understate the unfunded actuarial liability by \$2.02 billion. Our consultant believes that future valuations should include disclosures that fully reflect the effect of expected DROP participation.

- The payroll growth assumption understates actual payroll growth experience. As a result, amortization of the actuarial liability may be understated by between \$210 and \$270 million. To address this issue, our consultant believes that future FRS actuarial reports should disclose the 10-year history of payroll growth using the unfunded actuarial liability funding approach. Our consulting actuary also noted that while not unreasonable, the inactive healthy mortality rate assumptions appear conservative.
- Finally, our consultant believes that the actuarial valuation would be improved by providing prior year results in a side-by-side comparison with current year results as appropriate.

Multi-Agency

Centralizing Vehicle Fleet Operations and Implementing Cost-Saving Strategies Could Reduce State Spending, Report No. [11-16](#), April 2011. State law requires the Department of Management Services (DMS) to manage the state's vehicle fleet, but the department has delegated much of its authority to agencies and primarily serves an advisory role. This decentralized system hinders coordination, which reduces efficiency and increases costs. The current system also limits DMS's ability to optimize the use of the existing fleet, develop a uniform model for replacing the state's numerous aging vehicles, and implement statewide fuel and maintenance management contracts. In addition, some agency practices, such as assigning vehicles to employees that do not meet mileage use thresholds and providing mileage reimbursements to staff that extensively drive personal vehicles, may also increase state costs.

There are several options for improving fleet management and reducing costs, including centralizing all fleet operations under a single agency, centralizing some fleet operations under a single agency, requiring all agencies to use statewide fuel and fleet maintenance contracts, and outsourcing additional fleet services.

State Agency Travel Costs Are Down; Some Options Remain to Further Reduce Expenditures, Report No. [11-14](#), March 2011. In Fiscal Year 2009-10, state agencies spent over \$59.8 million on travel. Travel costs have declined 48%, or \$55.2 million, over the last four fiscal years. Agencies are changing their operations to further reduce costs, including limiting travel to mission-critical activities and increasing use of conferencing technology. Changes to Florida laws and directives from the Governor have substantially restricted travel. However, restrictions in law expire in July 2011. We recommend that the Legislature consider reauthorizing these restrictions. In addition, the Legislature could consider several options to further reduce costs, including

- reducing travel funding;
- statutorily capping reimbursement for hotel expenses using the federal hotel reimbursement rate as a ceiling;
- modifying per diem rates for the last day of travel;
- contracting for travel agent services;
- modifying the transportation model for travelers driving personal vehicles high-mileage for state business; and
- directing agencies to procure the most cost-effective electronic conferencing services.

Centralizing Aviation Operations and Implementing Cost-Saving Strategies Could Reduce State, Report No. [11-13](#), March 2011. Florida state aircraft are decentralized among six state agencies. The Department of Management Services is statutorily authorized to coordinate these agency aviation programs but only serves an advisory role. This fragmented system hinders coordination, reduces efficiency, and increases costs. In addition, some

agency practices may increase state costs; these include not seeking cost reimbursement for aircraft services provided to other entities, underutilizing aircraft, and using aging and surplus aircraft.

The Legislature could consider several options for improving state aircraft management and reducing costs, including centralizing all state aviation programs into a single aviation authority, consolidating all law enforcement aviation operations under a single agency, directing the Department of Management Services to exercise its statutory authority to centralize aviation operations, and creating an agency coordinating council for aircraft management. Each option has advantages and disadvantages as well as varying fiscal impacts.

Program Policy Analysis and Government Accountability, Office of

Annotated Listing of Legislative Recommendations, Report No. [11-23](#), December 2011. This report presents an annotated listing of recommendations OPPAGA has made to the Legislature in recent years for changes that would increase state program effectiveness and efficiency. Recommendations are sorted by broad policy areas; some recommendations are shown in multiple policy areas due to their broad potential impact. The recommendations for some reports are presented as a range of possible options.

Included is a section listing recommendations that would produce savings or other positive fiscal impacts. Some of these recommendations could be implemented directly by state agencies, while the Legislature would need to act to implement others. The report explains each recommendation and estimates its potential fiscal impact.