
Special Report

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106 N. Bronough St. • P. O. Box 10209 • Tallahassee, FL 32302 • (850) 222-5052 • FAX (850) 222-7476

Florida Nursing Homes: The Under-Funding Of Medicaid Reimbursements

Executive Summary

This study looks at historic and current quality and staffing level of Florida nursing homes services, comparatively across the state and nationally, and examines funding and expenditure levels over time as well. The analysis provides a sharp focus on the degree to which Florida nursing homes' Medicaid reimbursements have been inadequate and the implications thereof. The study concludes that:

- Florida nursing home staffing levels rank 3rd nationally.
- Florida nursing home rank 11th nationally in terms of their overall quality.
- Across Florida, nursing home quality remains relatively constant albeit with some regional variations.

Although quality remains high and is improving, this study finds that Florida nursing homes are seriously under-funded. The under-funding stems from the fact that Medicaid reimbursements have not kept pace with Medicaid cost. As a result, Florida nursing homes are losing money.

- Medical cost inflation raced ahead of general inflation by as much as 3.5% annually for each of the years under review.
- As of January 2004, Florida nursing home providers lose an average of \$14.72 per Medicaid patient day.
- The number of Florida nursing homes experiencing daily per day losses grew 15% since 1999.
- In 2004 the number of Florida nursing homes experiencing daily losses due to Medicaid funding short falls will be 87%
- Total annual Medicaid losses for 2003 are estimated to exceed \$234.6 million

This study concludes that it is essential to immediately increase Medicaid nursing home reimbursement levels in Florida to keep the industry from experiencing widespread declines in quality and to avoid financial disaster.

Introduction

The Florida Agency for Health Care Administration notes that Florida's current Medicaid program costs consume 25 percent of the state budget. Overall costs are expected to increase to more than \$40 billion in 2015; a rate that cannot be sustained.

In a March 30, 2004, letter to Medicaid providers, Florida's Agency for Health Care Administration (AHCA) sought comment concerning its effort to develop and submit to the federal government a "Medicaid reform waiver." If approved, such a reformed program would allow the state the Medicaid program flexibility it says it must have to meet future challenges.

Similar "block grant" approaches have been attempted in the past. Their core strategies, by necessity, must always focus on cutting future and/or current eligibility, cutting provider reimbursement rates or cutting services for those eligible to receive them.

Policy decisions as important as these cannot be made in haste, behind closed doors or otherwise out of the public eye. A workable and equitable solution can only be achieved following a full and open discussion, one where public comment is not unfairly limited.

The Nursing Home industry in Florida is currently experiencing widespread financial losses due to the inability of Medicaid reimbursement to cover nursing homes' Medicaid costs. The problem is that Medicaid costs are growing at a rate faster than Medicaid reimbursement. As of January 2004, nursing homes in Florida were losing an average \$14.72 per Medicaid patient day. Despite the fact that Florida nursing home Medicaid reimbursement is well under needed levels, the quality of Florida nursing homes has been and remains good and is improving, both over time and as compared nationally to other states. *The critical question is, however, how long can high quality be maintained under a system where nursing homes are underfunded?* The answer seems to be not much longer. This study is intended to examine some of these issues and looks at historic and current quality and staffing levels of Florida nursing homes services comparatively across the state and nationally and funding, plus expenditure levels over time. This study also provides a sharp focus on the degree to which Florida nursing homes' Medicaid reimbursements have been inadequate and addresses the implications thereof.

The study begins with a description of the Florida nursing home industry, then follows with a profile of the quality of service and staffing levels achieved by Florida nursing homes both across the state as compared to other states. Thereafter, the study will examine nursing home expenditure and Medicaid reimbursement levels and profile the extent of the serious and growing Medicaid revenue shortfall that threatens the entire industry in Florida.

Description of the Florida Nursing Home Industry

Figure 1 shows the number of licensed nursing homes in Florida from 1992-2003. As noted, whereas there was a steady increase in the number of licensed facilities between 1992 and 2000, the number has been relatively stable since 1999.

As noted in Figure 2, the number of nursing homes participating in Medicaid in Florida over the 1999 to 2004 time-frame—the period of this analysis—also has been fairly stable. In 1999, there were 633 Medicaid certified nursing homes participating in Medicaid, whereas in January 2004, there were 641. The number of facilities increased by 1.2 % between 1999 and 2004. Given Florida's large population

and its sizeable population of elderly citizens, it is not surprising that the state usually ranks in the top five among all states in the number of nursing homes.

Figure 1. Number of Florida Licensed Nursing Homes 1992-2003

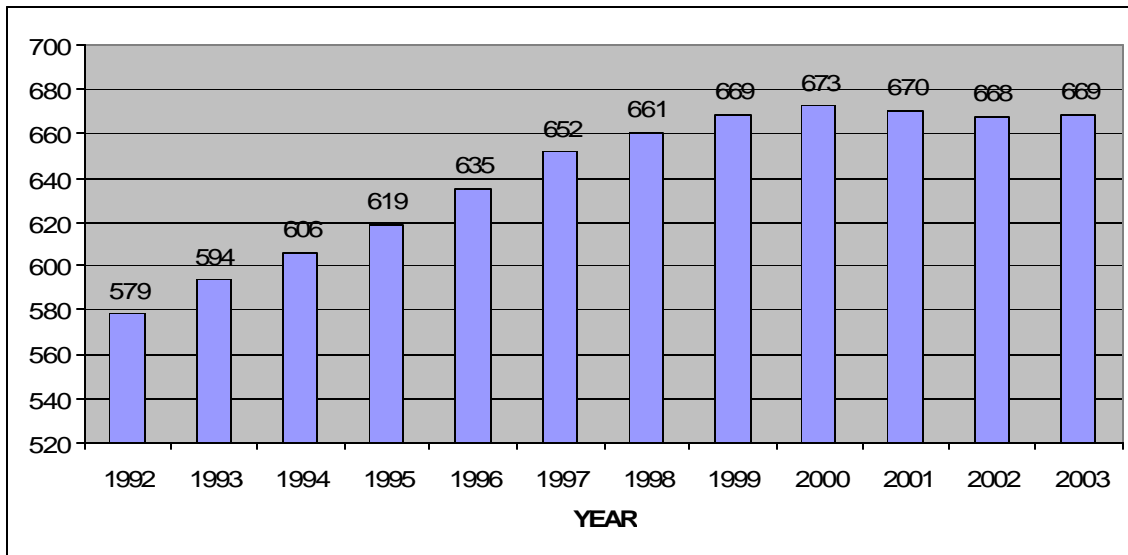
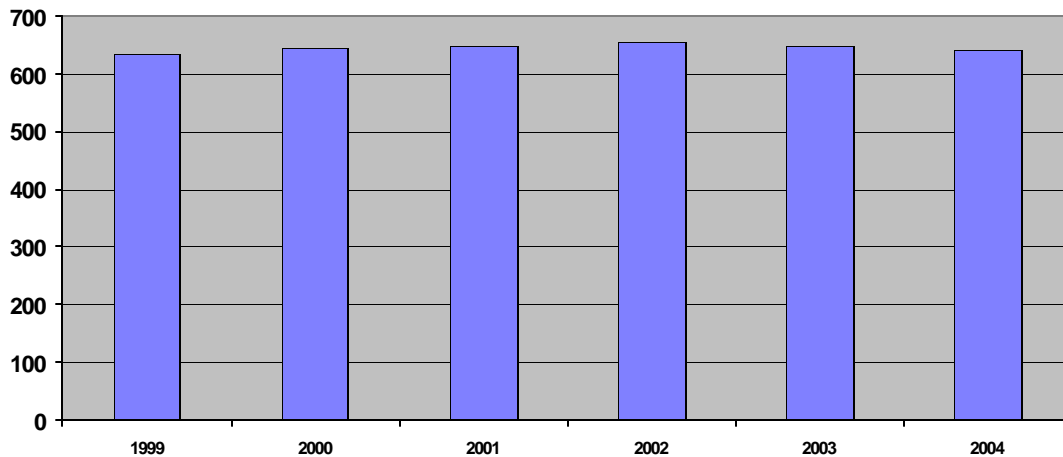


Figure 2. Number of Medicaid Certified Florida Nursing Home Facilities Participating in Medicaid 1999-2004

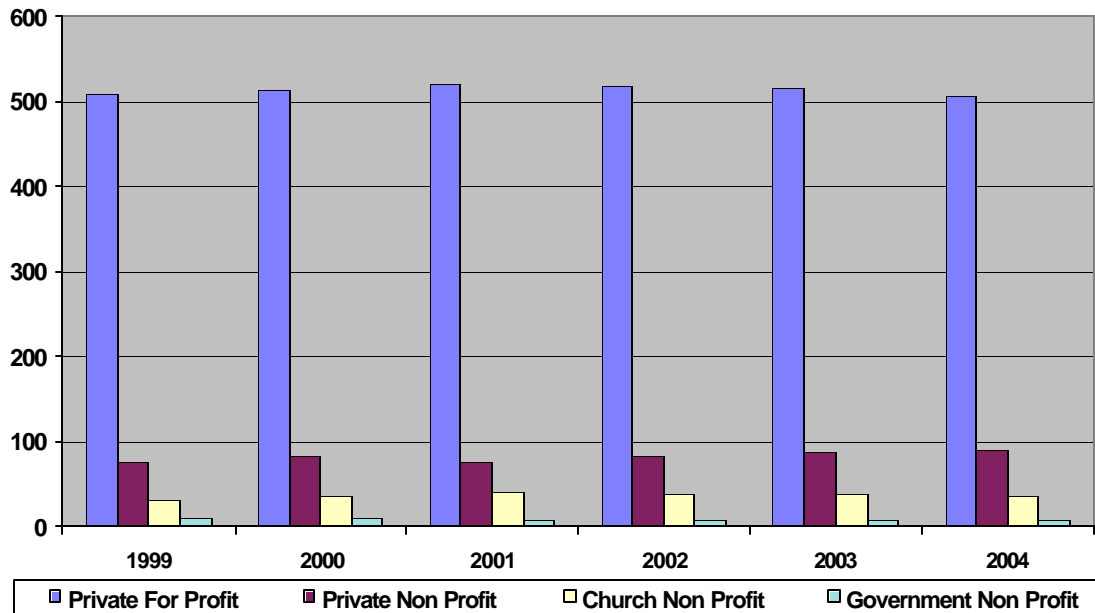


Source: Agency fo Healthcare Administration

Nursing Home Facilities by Ownership Type

There are four different classifications of nursing home ownership. Nursing home facilities can be Private for profit, Church non-profit, Private non-profit, or Government non-profit. Notably, the first part of the classification designates the type of group ownership, and the second part indicates whether they are a profit or non-profit institution. The dominant ownership type in Florida is Private for profit. Eighty percent of all nursing home facilities in Florida are privately owned for profits. Figure 3 is a graph of the number of Florida nursing home facilities by type of ownership.

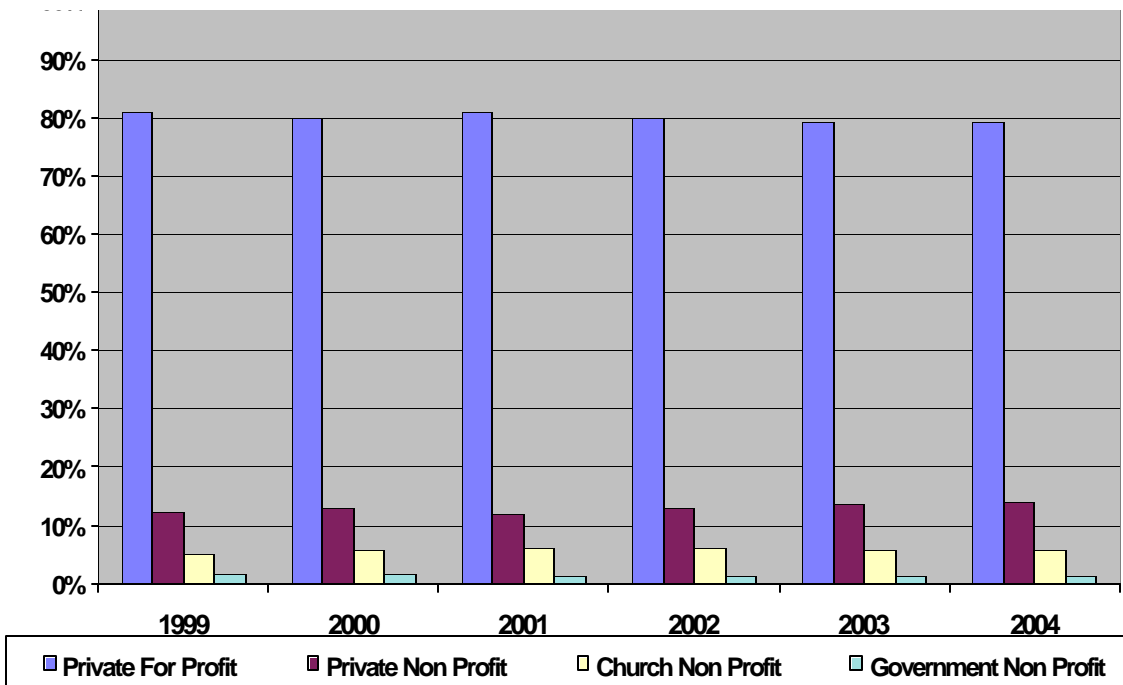
Figure 3. Number of Medicaid Certified Nursing Home Facilities Participating in Medicaid by Type of Ownership 1999-2004



Source: Agency for Healthcare Administration

As one can see, there were not any dramatic changes in the ownership structure of nursing homes from 1999 through 2004. Over that time-period, approximately 80% of facilities were Private for profit, 13% Private non-profit, 6% Church non-profit, and about 1% Government non-profit. Figure 4 shows the percent of facilities by ownership type.

Figure 4. Percent of Medicaid Certified Nursing Home Facilities Participating in Medicaid by Type of Ownership 1999-2004

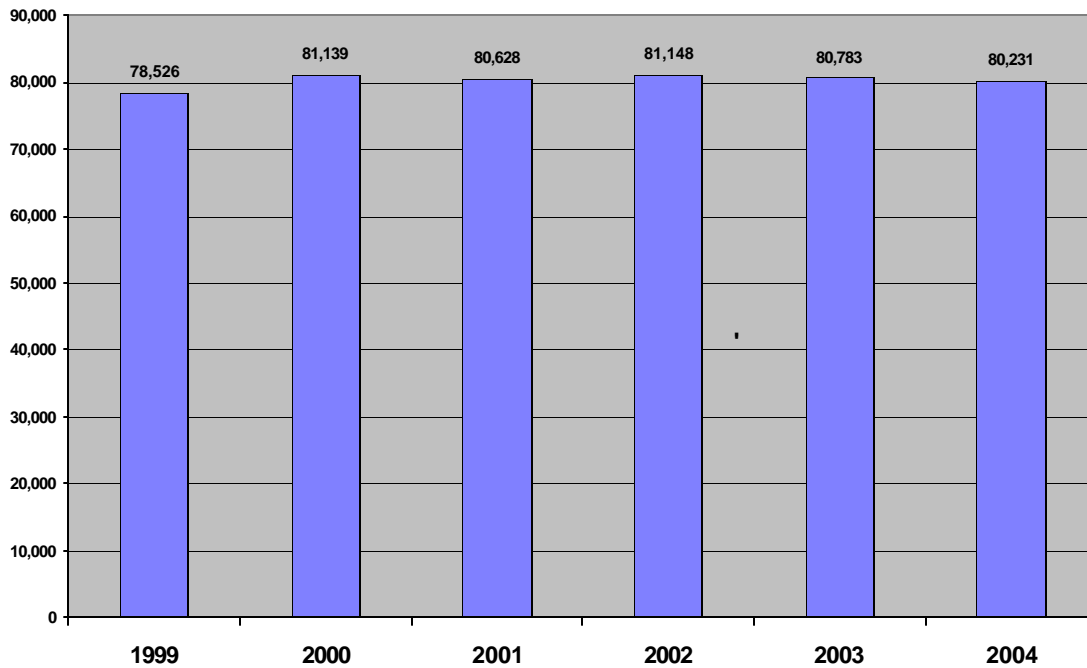


Source: Agency for Healthcare Administration

Number of Beds

The number of beds in nursing homes is important because it provides an estimate of the ultimate industry capacity. Bed count also provides a basis for calculation of capacity utilization and other important use statistics. Nursing homes are in the business of caring for the sick and elderly and the bed numbers ultimately determine how many aging or infirmed Floridians that can be accommodated. The number of beds in Medicaid certified nursing homes increased by 2.17% between 1999 and 2004 (Figure 5). Although the number of beds in 1999 (78,526) increased to 80,231 by January 2004, notably, there are 817 fewer beds in 2004 than existed in 2002.

Figure 5. Number of Beds in Florida Nursing Homes Participating in Medicaid 1999-2004

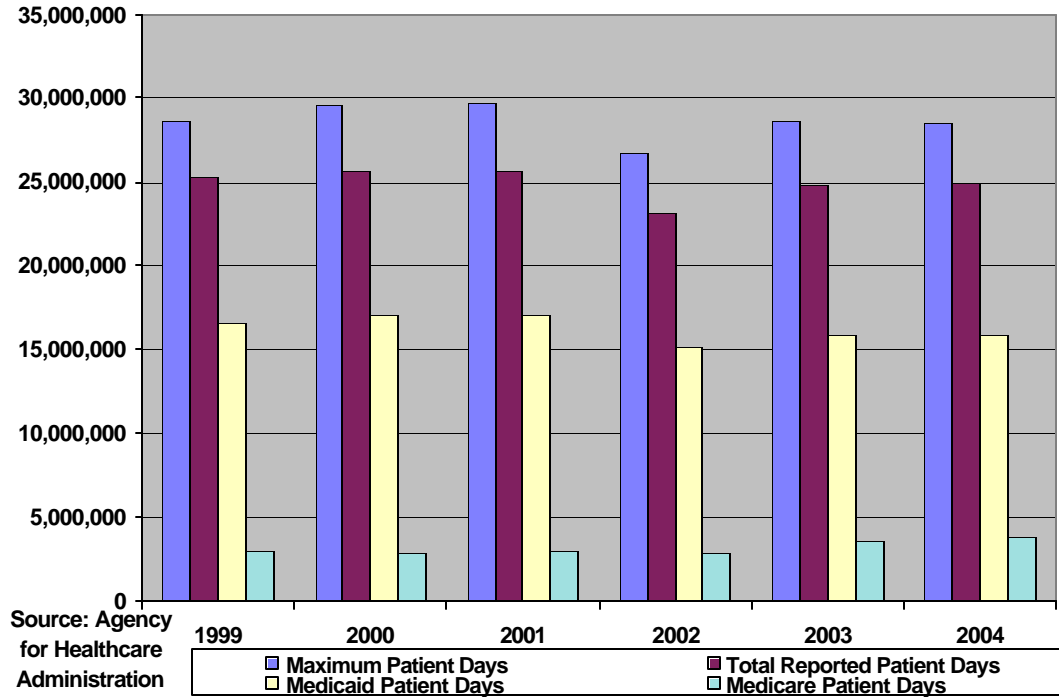


Source: Agency for Healthcare Administration

Patient Days

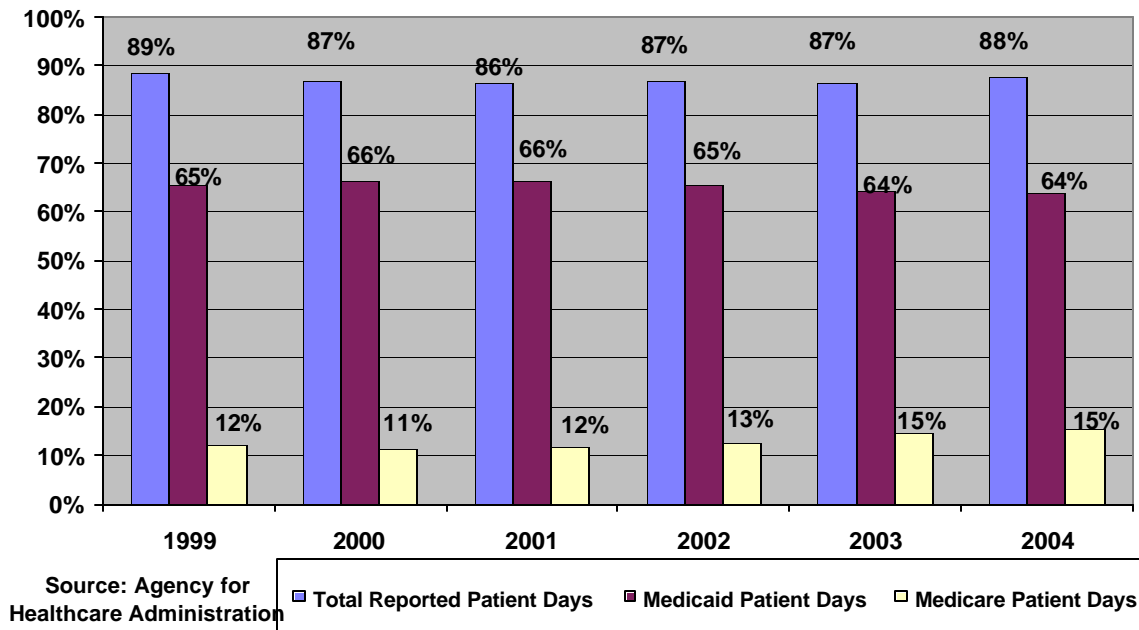
This study examines four different measures of patient days: maximum potential patient days, total reported patient days, Medicaid patient days and Medicare patient days. Figure 6 depicts these different measures of patient days between 1999 and the beginning of 2004.

Figure 6. Number of Patient Days 1999-2004



Maximum potential patient days in nursing homes participating in Medicaid increased between 1999 and 2001 but slightly declined from its highest level in 2002. However, in 2003 and early 2004, potential patient days increased. The other three measures of patient days followed a similar pattern. Figure 7 presents total reported patient days as percents of maximum patient days, Medicaid patient days and Medicare patient days as percents of total days. The percentage total reported patient days averaged around 87% over the years 1999 until the beginning of 2004. Medicaid patient days averaged about 65% of total patient days over the same period and Medicare patient days averaged about 13% of total patient days over the period of review.

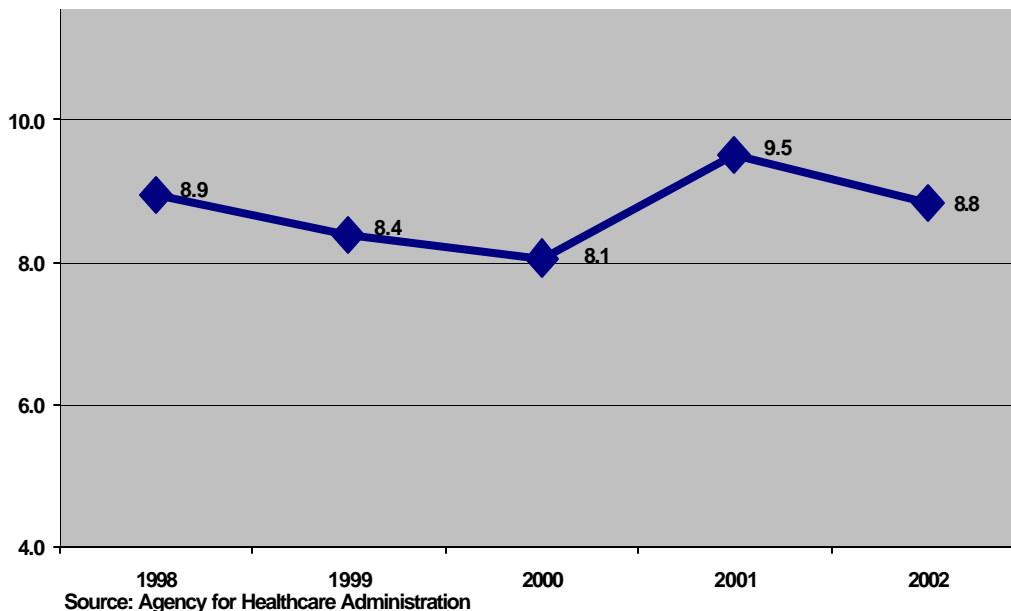
Figure 7. Total Reported Patient Days 1999-2004



Evaluation of Florida Nursing Home Quality and Staffing Levels

Figure 8 provides a review of the average number of citations per nursing home facility in each of the Florida Regions.¹ Over the period 1998 through 2002 the average number of citations per nursing home remained relatively constant and was among the best (top quartile) of states nationally. They decreased slightly from 8.9 in 1998 to 8.8 in 2002, however the averages within different regions experienced wider variation. Appendix 1 includes the averages for each region.

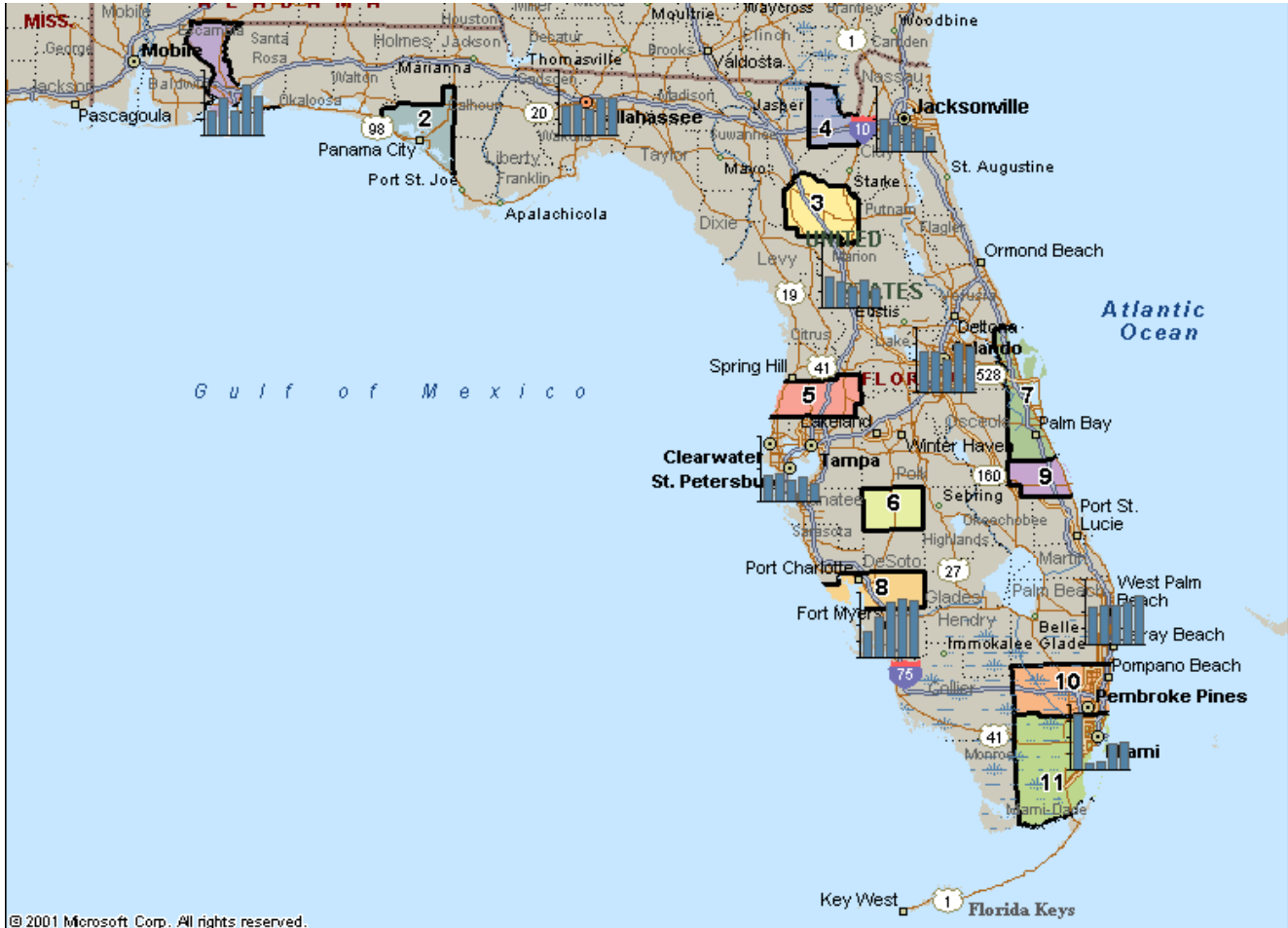
Figure 8. Average Number of Citations per Nursing Home Facility 1998-2002



¹ As will be discussed later, the scope and severity of the citations are a better measure of quality than the number.

Figure 9 provides a five-year regional profile of the number of citations per nursing home by region across Florida. The bar graphs in each region provide a visual reference to compare each year to the previous within the region and compare across each region. The detailed data for each region annually is graphed against the state average in Appendix A of this report for interested reviewers.

Figure 9. Average Number of Citations per Nursing Home Facility by Region 1998-2002

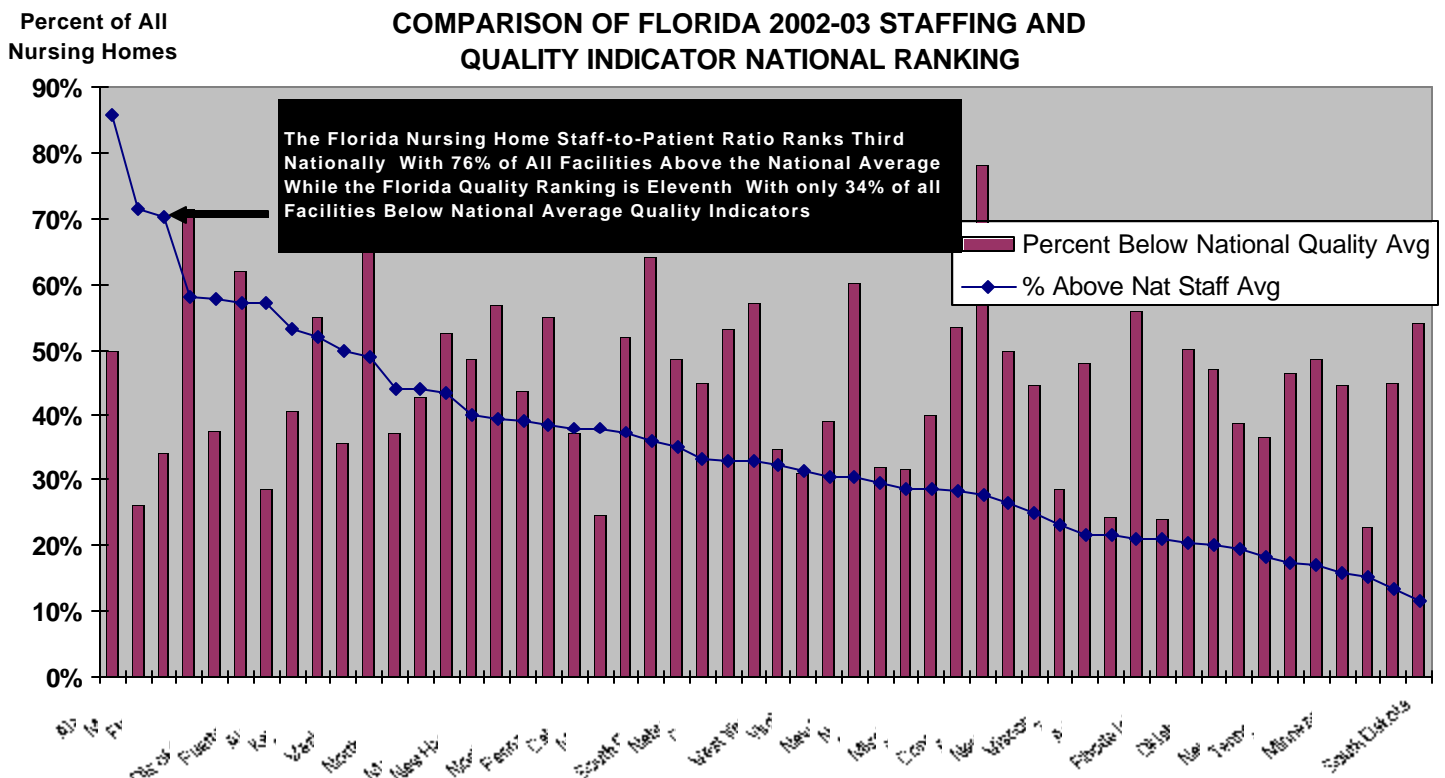


National Literature Reviews of Florida Quality and Staffing Levels

Robert Abrams, in a 2003 report, *Government Dilemma: How the Government's Own Data Exposes a Direct Correlation Between Inadequate Medicaid Reimbursement, Low Staffing Levels, Excessive Regulation and the Harm Caused to Nursing Home Residents*², looks at the quality and staffing levels of nursing homes nationwide. Florida nursing homes rank high nationally on both measures of staffing and quality. Staffing levels are measured as the ratio of the number of nursing staff hours worked each day by Registered Nurses, Licensed Practical Nurses, Certified Nurse Aides and the total number of residents in the facility. Figure 10 displays the state rankings on this measure. It shows that Florida ranks as the third highest rank state nationally on this important measure of average staffing levels provided to nursing home clients.

² Available at <http://www.myziva.net/about/pressrel/myzivanetreport.pdf>

Figure 10. Comparison of Florida 2002-03 Staffing Indicator National Ranking³



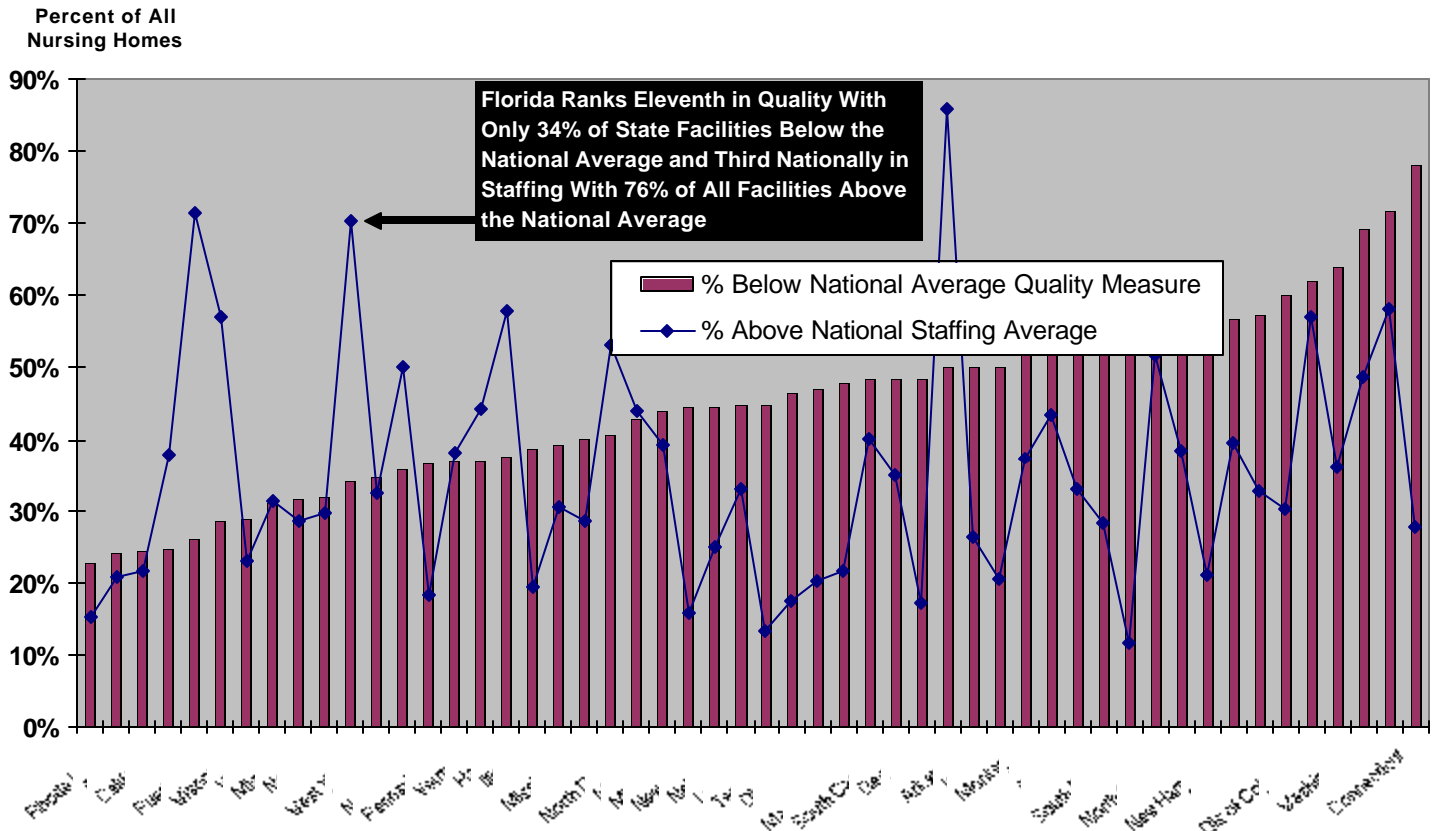
Source: Government Dilemma: Correlation Between Medicaid Reimbursement and Nursing Home Quality..., Robert Abrams, CEO, MyZiva.net, Sept 19, 2003

Florida nursing homes also rank relatively high nationally with respect to overall quality. To measure quality, the study used surveys conducted by the government, of nursing home facilities. The surveys use a letter system to measure any deficiencies the nursing homes may have. The rankings range from the letter “A”—the deficiency is isolated with minimal or even no risk at all to residents—to the letter “L” (death or serious injury has occurred). If the facility had one or more G ratings (isolated actual harm) in the last three surveys, then it is considered below the national quality average. A state’s quality ranking was determined by totaling the number of facilities that had one or more G ratings in the last three surveys and dividing by the total number of facilities in that state.

Figure 11 shows that, in terms of this overall quality measure, Florida nursing homes rank in the upper quartile at eleventh, (the 78th percentile nationally) among all the states when compared on this important measure. In summary, only 34% of all Florida nursing homes fall below the national quality rankings. Alternatively stated, 66% of all Florida nursing homes were above the national average on this significant measure of quality with 39 other states with higher percentages of nursing homes with lower quality rankings.

³ Because of Senate Bill 1202, staffing are even higher than reported here.

Figure 11. Comparison of Florida 2002-03 Quality Indicator National Ranking



Source: Government Dilemma: Correlation Between Medicaid Reimbursement and Nursing Home Quality..., Robert Abrams, CEO, MyZiva.net, Sept 19, 2003

Florida Nursing Home Costs and Medicaid Reimbursement

To provide quality long-term care for clients, nursing homes incur significant costs. This section provides a profile of both Florida nursing home costs and Medicaid reimbursement rates and a profile of the significant and growing Medicaid shortfall over the recent past. Medical cost inflation across the spectrum of nursing home services has in part been responsible for this dramatic growth in Medicaid costs as it greatly exceeds general inflation. That the growth in costs has exceeded inflation is due in no small part to Senate Bill 1202 requiring significant increases in nursing home staffing and risk management. Each year the combined higher rate of growth in medical costs has further escalated the problem in Florida and across the rest of the country. A brief description of the cost drivers is essential to understand the growing problem the industry faces.

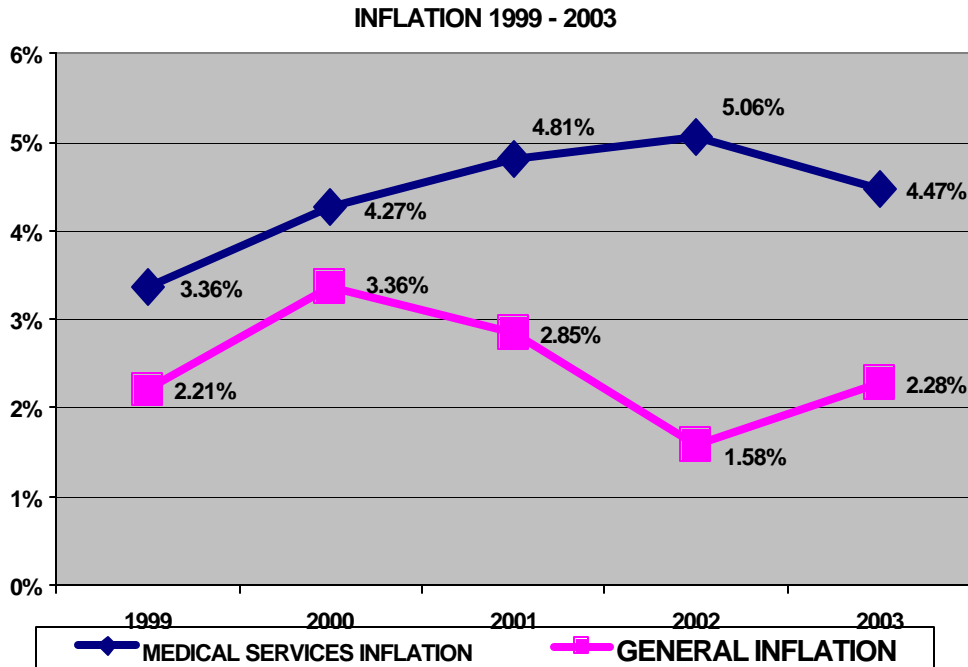
Florida and US Medical and General Inflation Rates⁴

General inflation is represented by an increase in the general price of all goods and services levels over time. Medical services inflation is the change in the price of medical services over time alone. Figure 12 displays the national general inflation level and medical services inflation between 1999 and 2003. General inflation has ranged from 2.21% in 1999, to a low of 1.58%, in 2002 to 2.28% in 2003.

⁴ Medicaid inflation may be higher in Florida than general inflation due to a variety of factors: increases in medical liability, costs, wage demands (nurses and CNAS in scarce supply) and other factors related to medical technology.

Medical services inflation has grown faster than general inflation by one to three and one half percent. Medical services inflation was 3.36% in 1999 and increased every year to a current rate of 4.47%. These higher medical costs accelerated nursing home costs well above general costs and further accentuated the growing Medicaid shortfall in Florida.

Figure 12. U.S. Medical and General Inflation



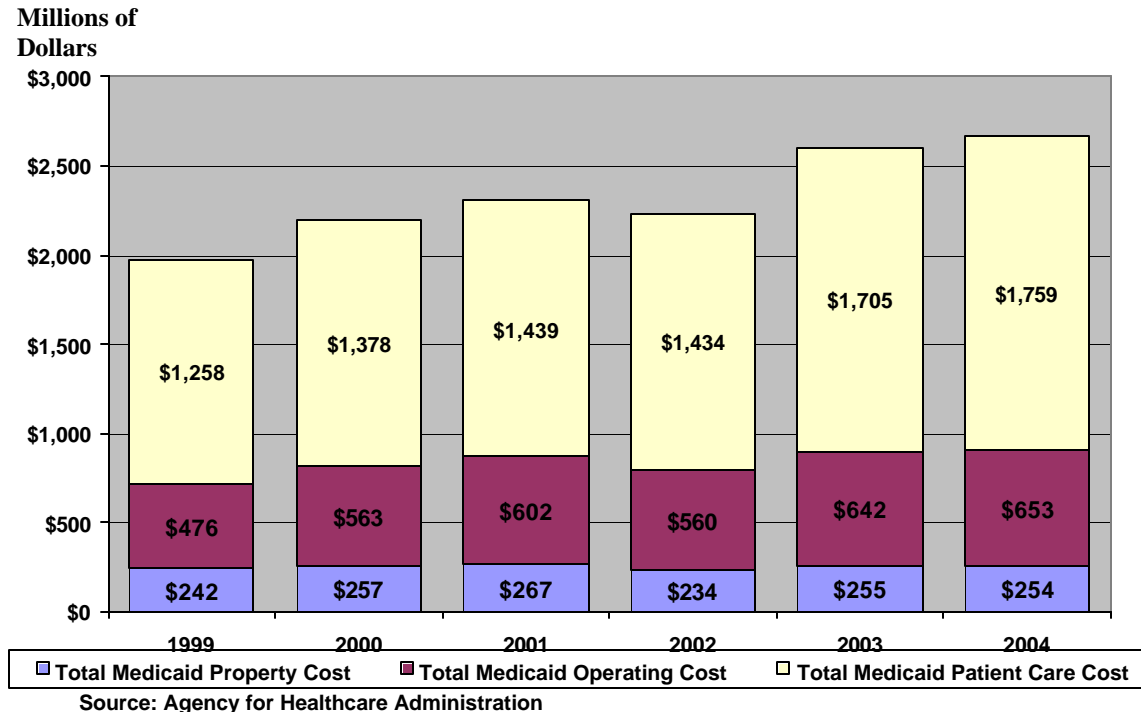
Source: U.S. Dept. of Labor, Bureau of Labor Statistics

Florida Nursing Home Cost Expenditures and Reimbursement Levels

A nursing home facility’s cost can be broken down into three categories: operating costs, patient care costs and property costs. Operating costs include plant operations and maintenance, administration, liability insurance, housekeeping, and laundry services. Patient care costs include salaries and benefits of staff providing nursing services, and other patient care costs such as therapies, activities, dietary and supplies.

Figure 13 shows the total Medicaid property, operating and patient care costs for the year 1999 to the beginning of 2004. The largest component of costs, averaging 64% of total Medicaid costs, are those expenditures associated with patient care. Patient care costs grew over time from \$1.26 billion in 1999 to \$1.76 billion in 2004, a 39% increase.

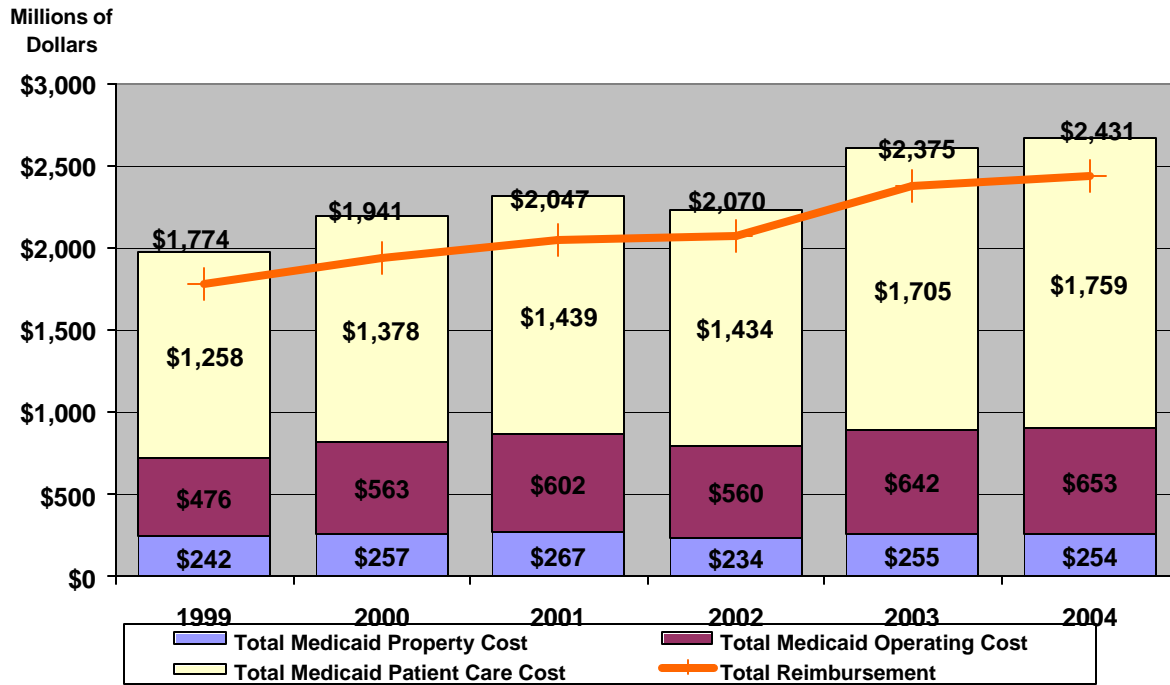
Figure 13. Total Florida Medicaid Costs



Operating costs grew from \$476 million in 1999 to \$653 million in 2004, an increase of 37%. Property costs, however, have remained relatively unchanged over the years.

Unfortunately, nursing homes were not able to cover their costs because Medicaid reimbursement grew at a rate not adequate to cover the growth in nursing homes costs. Figure 14 shows the gap in the under funding of nursing homes for the years 1999 up to January 2004. Total Medicaid costs (the height of the bars) always exceeded the Medicaid reimbursement (the line) in each of the six years evaluated because of artificially derived limits to nursing home reimbursement.

Figure 14. Total Medicaid Property, Operating, and Patient Care Costs Compared to Total Medicaid Reimbursement 1999 – 2004

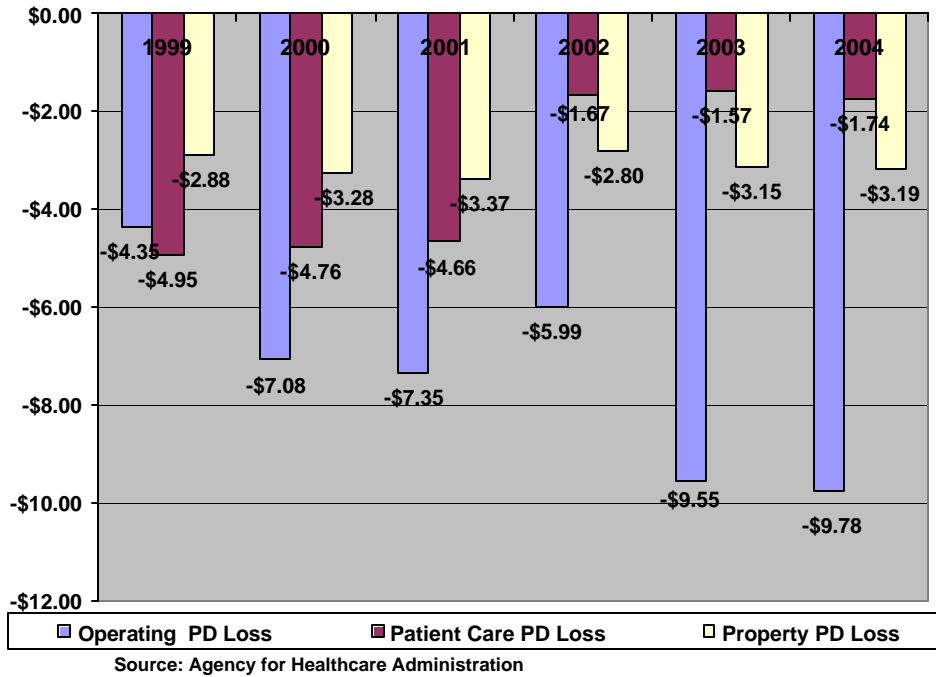


Source: Agency for Healthcare Administration

Unfortunately, Medicaid reimbursement doesn't adequately cover these costs. Figure 15 shows the average per day losses for each of the cost categories for the year 1999 to the beginning of 2004.

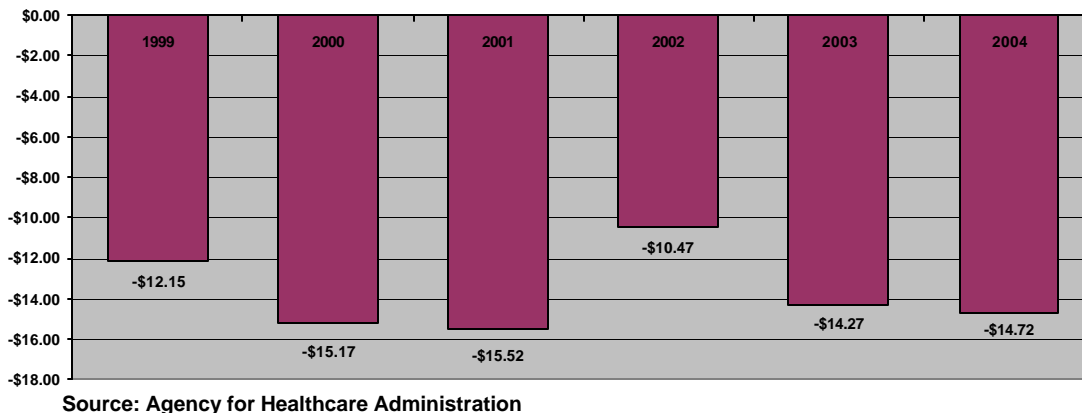
The largest component of per day losses is in the operating costs category. The losses from Florida nursing home facilities being paid less than their allowable Medicaid operating costs was \$4.35 per day in 1999 and grew to \$9.78 per day at the beginning of 2004. This is a 125% increase in operating component losses per day from Medicaid reimbursement, not covering operating costs. The per day losses in the area of patient care decreased over time, from a loss of \$4.95 per day in 1999 to a \$1.74 loss per day in 2004, because of funding increases from the Legislature. However, there has been less variation in property losses over the period of 1999 to the beginning of 2004.

Figure 15. Average per Day Losses 1999-2004



One can aggregate the losses from each of these categories: operating, patient care, and property expenses into a total loss-per-day calculation. Figure 16 outlines the average total per day loss for the years 1999 to the beginning of 2004. The average total per day loss increased by 21% since 1999. The average total per day loss was \$12.15 per day in 1999 and is now \$14.72 per day, as of January, 2004.

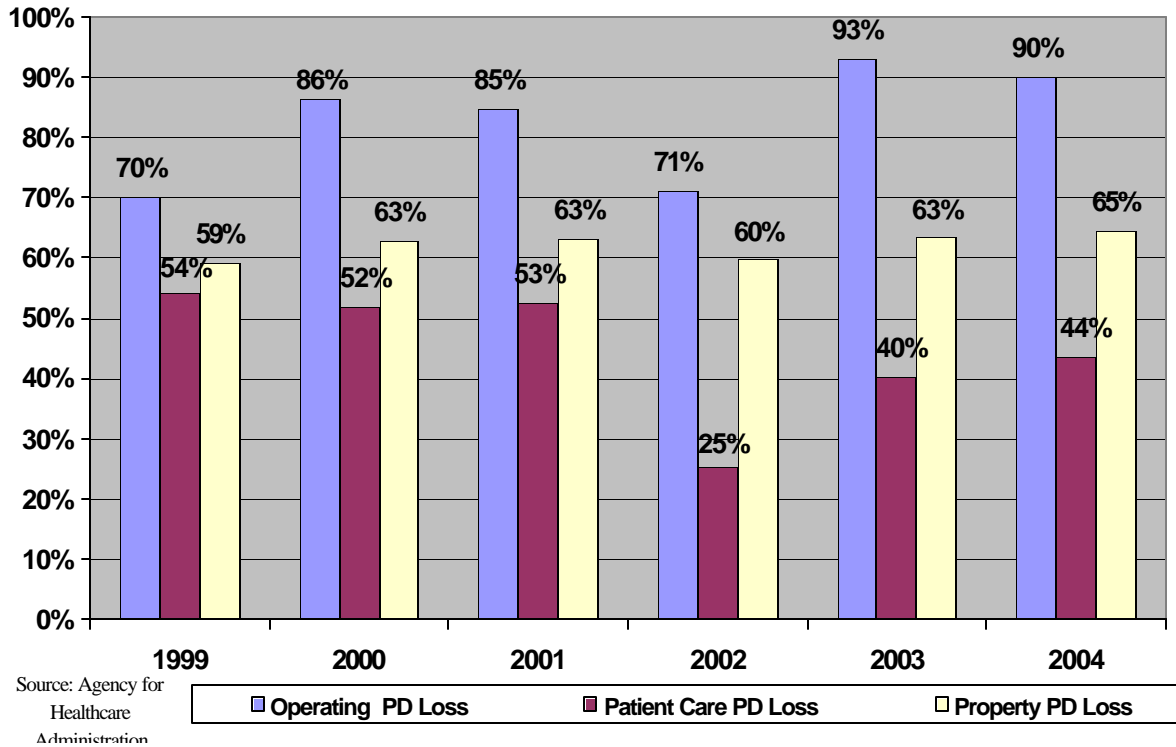
Figure 16. Average Total Per Day Losses 1999-2004



Not only did the losses per day grow over time, but also the percentage of facilities suffering losses grew significantly because of the lack of adequate Medicaid reimbursement. Figure 17 depicts the percentage of facilities with losses for operating, patient care and property expenses. The percentage of nursing home facilities experiencing operating component losses per day due to Medicaid reimbursement shortfalls grew from 70% in 1999 to 90% in 2004. The number of facilities

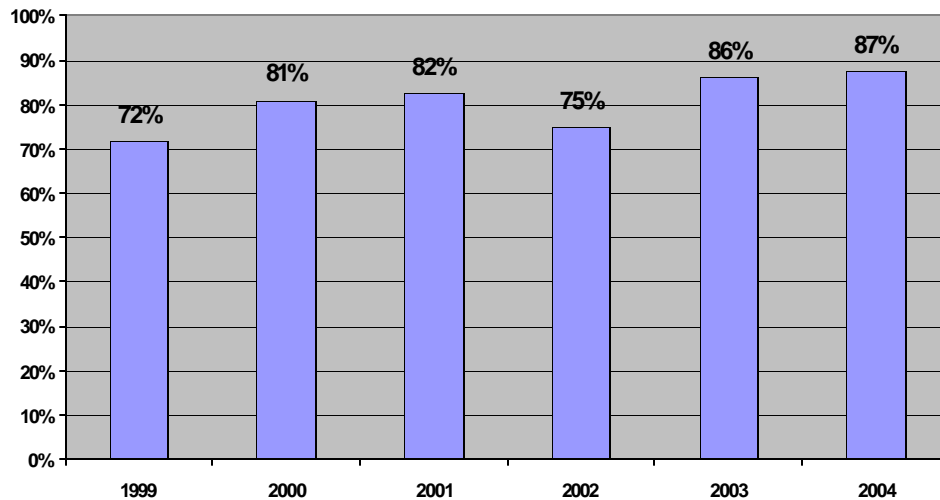
experiencing patient care per day losses decreased in 2002 due to new funding and is now substantially growing again. The number of facilities with property per day losses did not change as dramatically.

Figure 17. Percentage of Nursing Home Facilities with Losses 1999-2004



It is also insightful to look at the percentage of facilities with total per-day losses. Figure 18 presents the percentage of facilities with total per day losses for the years 1999 to the beginning of 2004. The percentage of facilities with total per day losses for 1999 was 71.7%. That number grew significantly by almost 16% to 87.4% of all nursing home facilities in Florida experiencing total per day losses by January of 2004 due to inadequate Medicaid reimbursement.

Figure 18. Percentage of Facilities with Total Per Day Losses 1999-2004

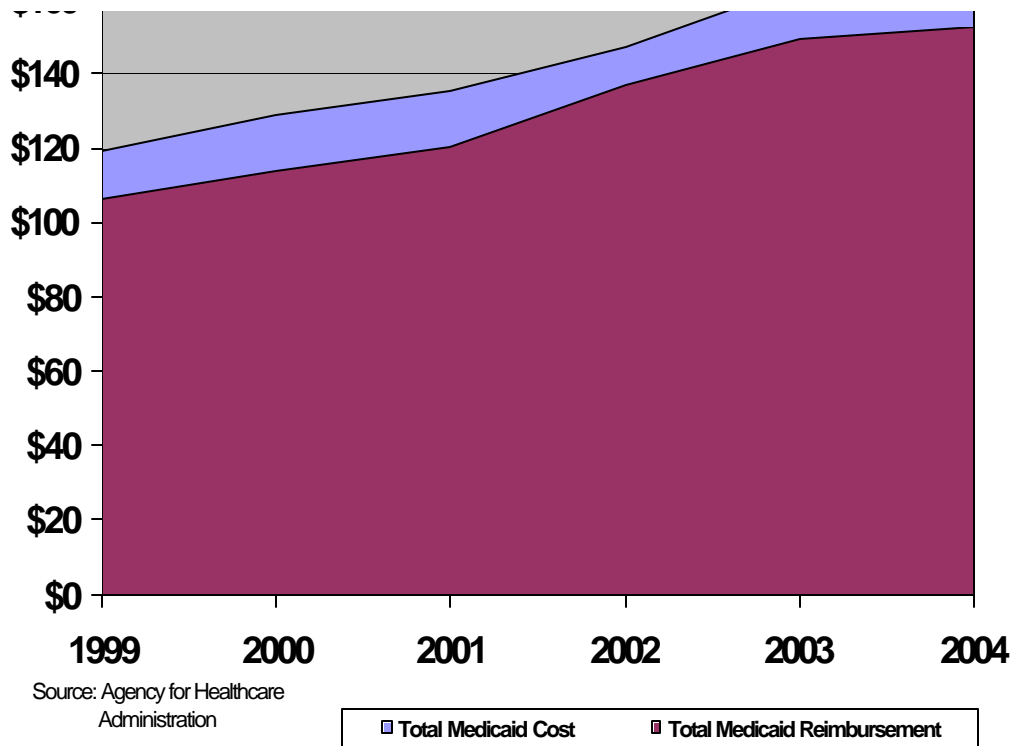


Source: Agency for Healthcare Administration

The reason behind nursing homes being unable to cover their costs is that Medicaid reimbursement did not grow at a rate adequate enough to cover the growth in nursing home costs. Figure 19 below shows the gap in under funding of nursing homes for the years 1999 up to January 2004. Total Medicaid costs *have always* exceeded the Medicaid reimbursement. In 1999, total Medicaid costs were \$119.15 per day on average, whereas total Medicaid reimbursements were \$106.49, a loss of \$12.66 per day, on average. Unfortunately, the losses that nursing home facilities experienced grew over time. Looking at the latest data available, January 2004, the loss per day on average is now \$14.72, a 16% increase in per day losses from 1999.⁵

In order for funding levels to be commensurate with nursing homes' overall funding needs, it is imperative that the discrete needs-based funding requirements of individual components be taken into account additively so that total revenues ultimately equate to total costs. By mathematical definition, absent a comprehensive assessment and appreciation from the total funding, need-based perspective of nursing homes, certain individual components (*viz*, direct patient care) may be appropriately funded but others could go lacking, and with a deleterious effect on the industry's "bottom line."

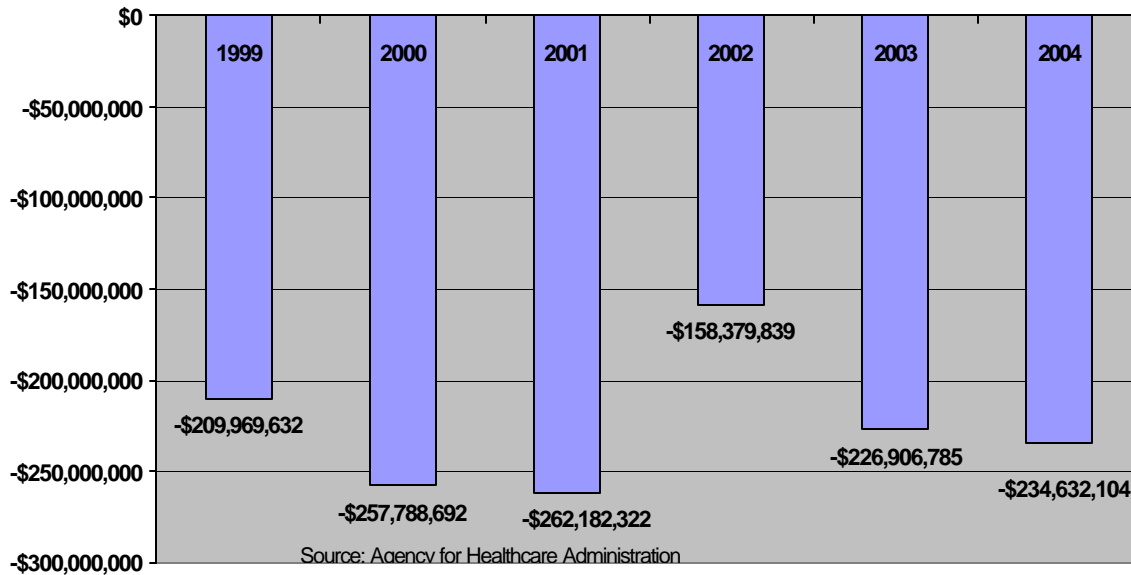
Figure 19. The Per Day Shortfall of Medicaid Reimbursement 1999-2004



One can discern the total dollar effect of Medicaid reimbursement on the entire nursing home industry in Florida. Figure 20 displays the total losses to the Nursing Home industry in Florida from Medicaid reimbursement not covering nursing homes' Medicaid costs. The losses from inadequate Medicaid reimbursement grew from a total loss of \$210 million in 1999 to a total loss of \$235 million in 2004, an increase of 12%.

⁵ A decrease in losses for 2002 stemmed from a rebasing of the Patient Care component.

Figure 20. Total Losses from Medicaid Reimbursement 1999-2004



Conclusion

The Nursing Home industry in Florida is currently experiencing wide spread losses due to the inability of Medicaid reimbursement to cover ongoing Medicaid nursing homes costs. As of January 2004, nursing homes in Florida were losing an average \$14.72 per Medicaid patient day that is estimated to exceed \$234.6 million this year alone. Despite the fact that Florida nursing home Medicaid reimbursement is well under needed levels, the quality of Florida nursing homes has been and remains good both over time and compared nationally to other states. In fact, Florida nursing homes rank 3rd nationally in terms of staffing and 11th nationally in terms of overall quality.

The critical question, however, is “How long can high quality be maintained under a system where nursing homes are under-funded?” It is clear that there need to be increases in Medicaid reimbursements to match nursing homes’ actual costs, or quality will begin to suffer. It is hard to imagine that nursing homes will be able to continue this commitment to care for recipients at the levels they currently are in the face of continued funding shortfalls.⁶

In conclusion, since Medicaid reimbursements are not growing as fast as the growth in Medicaid costs, the legislature and the industry should explore ways to further both increase reimbursements to needed levels as well as methods to reduce costs before quality of service to nursing home residents begins to suffer.

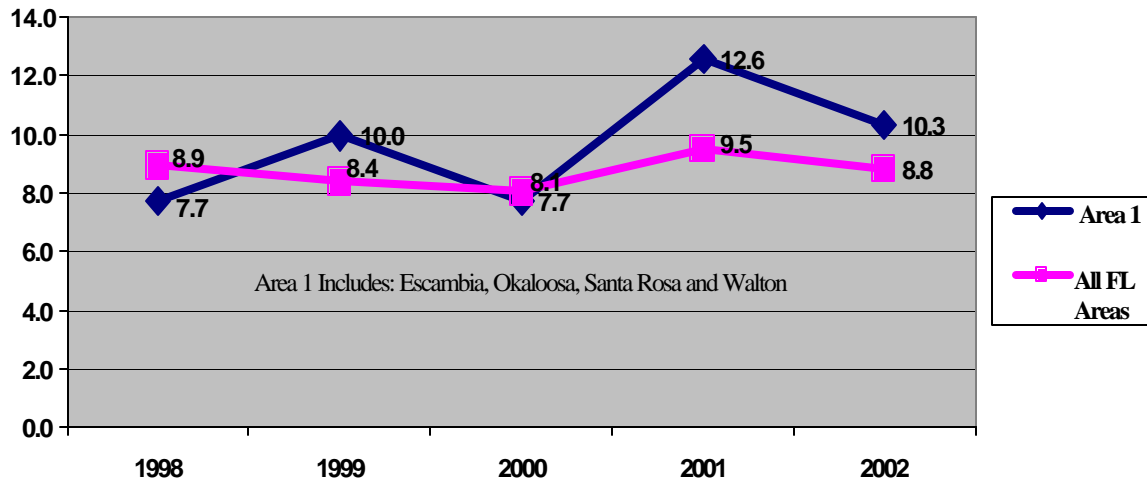
⁶ See “Nursing Homes with Persistent High and Low Quality, *Medical Care Research and Review*, Vol. 61, Issue 2, April, 2004, p. 89 for an interesting discussion of the requisite needs of nursing homes in order for them to be able to persistently maintain high quality care.

APPENDIX

Florida Regional Profiles of Nursing Home Quality of Care Measures

Area 1 includes Escambia, Okaloosa, Santa Rosa, and Walton Counties. In all but two of those years Area 1's average was in excess of the state average. As shown in Figure 1, the average number of citations across Area 1 has increased from 7.7 to 10.3 to a high point of 12.6 in 2001, 17% above the state average. In all but two of those years, the Area 1 average was in excess of the state average.

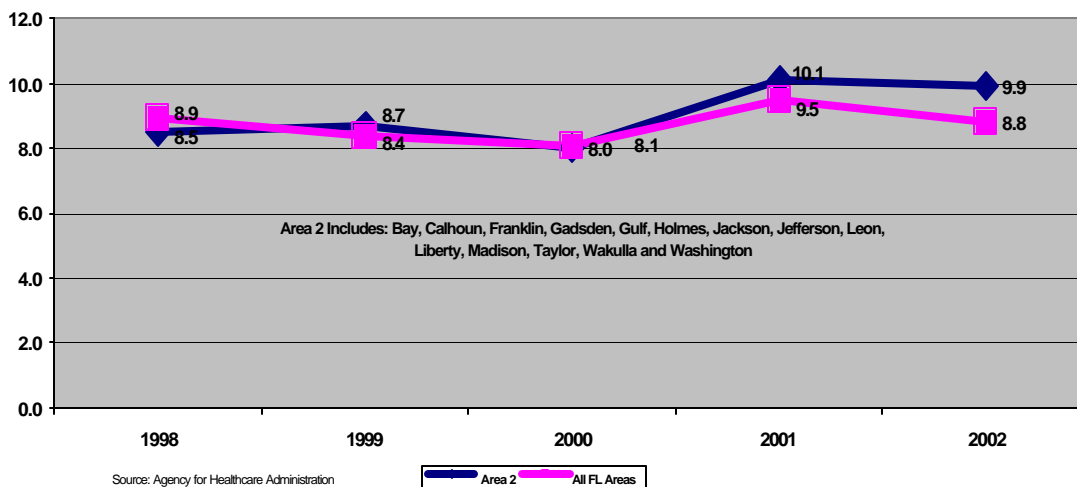
Figure 1. Average Number of Citations in Area One 1998-2002



Source: Agency for Healthcare Administration

Figure 2 includes Bay, Calhoun, Franklin, Gadsden, Gulf, Holmes, Jackson, Jefferson, Leon, Liberty, Madison, Taylor, Wakulla and Washington counties. It shows that Area 2 has more closely parallels the state average in each year, beginning at 8.5 in 1998 and increasing to 10.1 in 2001, and then declining somewhat to 9.9, 13% in excess of the state average of 8.8 in that year.

Figure 2. Average Number of Citations in Area Two 1998-2002



Source: Agency for Healthcare Administration

Figure 3 shows Area 3, which includes Alachua, Bradford, Citrus, Columbia, Dixie, Gilchrist, Hamilton, Hernando, Lafayette, Lake, Levy, Marion, Putnam, Sumter, Suwannee and Union counties. Area 3 has sustained an average number of citations per nursing home facility under the state average in each of the years under evaluation. Starting at 8.8 in 1998 it declined to 7.1 by 2000 and dropped even further to 6.9, 22% under the state average by the year 2002.

Figure 3. Average Number of Citations in Area Three 1998-2002

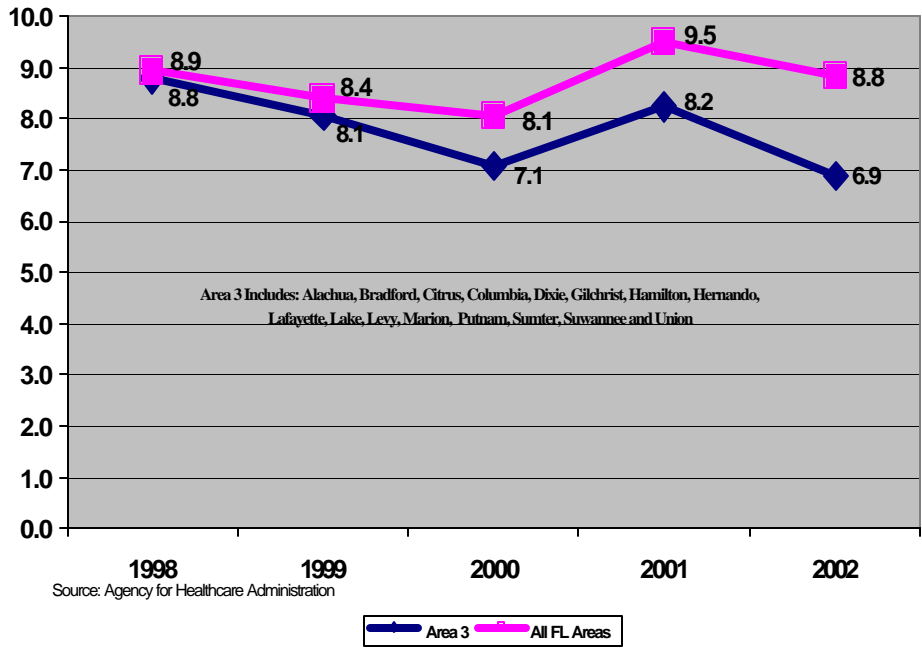


Figure 4 shows a similar trend for Area 4, which includes Baker, Clay, Duval, Flagler, Nassau, St. Johns and Volusia counties. In Area 4, the number of citations per nursing home has declined from 9.0 in 1998 to 7.9 by 2000 and even further to 5.9 by 2002, approximately 33% below the state average of 8.8 in that year.

Figure 4. Average Number of Citations in Area Four 1998-2002

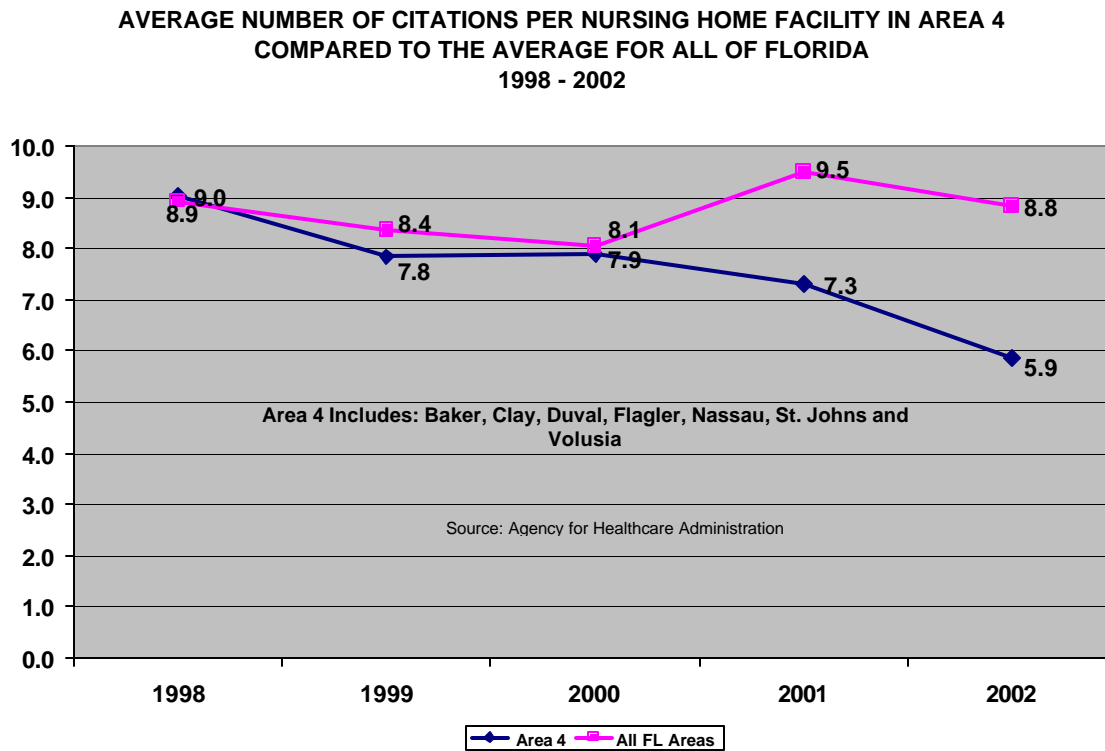
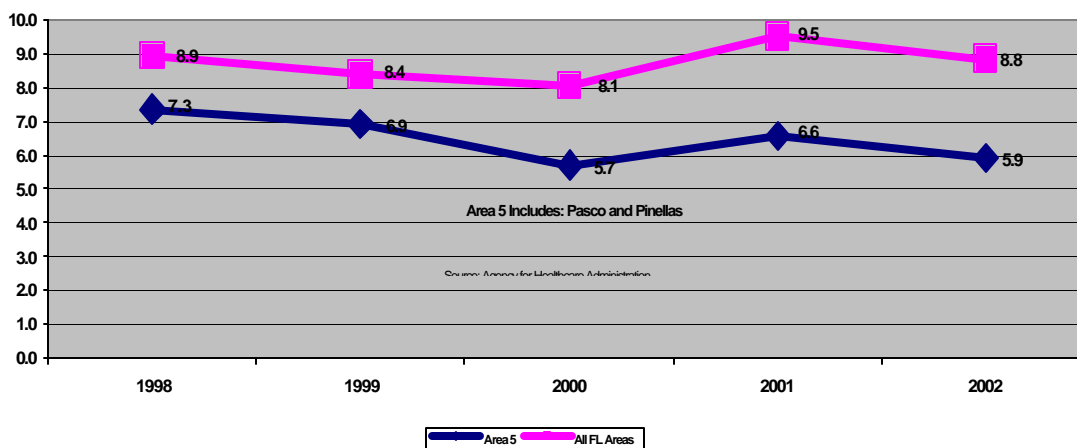


Figure 5 provides a similar profile for Area 5, which includes Pasco and Pinellas Counties. Area 5 reports the lowest average number of citations in each year per nursing home facility of any of the regions in the state. They were at 7.3 in 1998 and declined to a low of 5.7 by the year 2000 but increased slightly to 5.9, 33% below the state average by 2002.

Figure 5. Average Number of Citations in Area Five 1998-2002



As depicted in Figure 6, Area 6 includes Hardee, Highlands, Hillsborough, Manatee and Polk. Area 6 demonstrates a similar trend to that Area 5 with a 1998 average of eight, which declined to 6.9 by 2000, and then to 6.5 by 2002, approximately 26% under the state average of 8.8 in 2002.

Figure 6. Average Number of Citations in Area Six 1998-2002

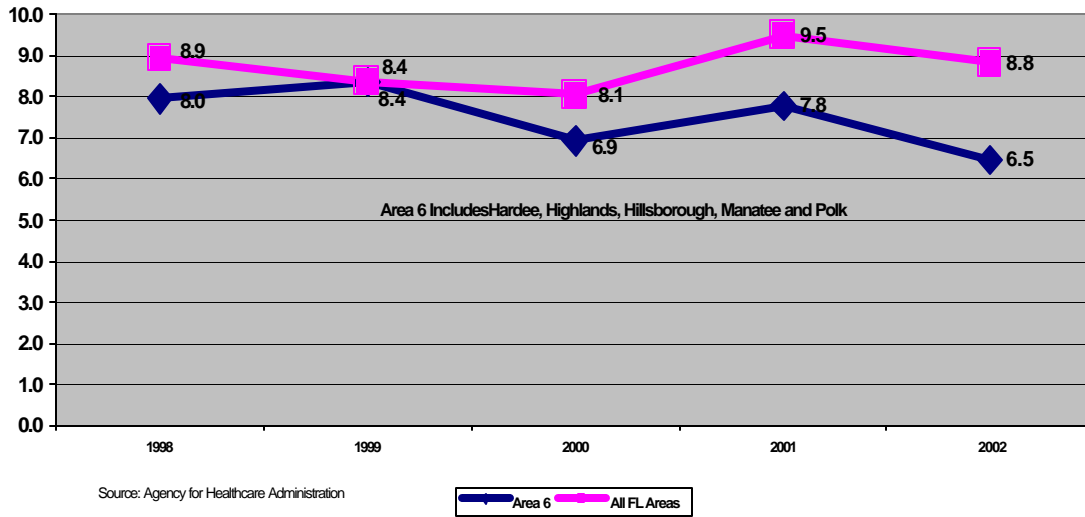


Figure 7 provides a similar profile for Area 7, which includes Brevard, Orange, Osceola, and Seminole Counties. Area 7 consistently maintained an average well above the state in each of the years examined. In 1998, Area 7 reported 10.5 citations per nursing home, which climbed to 12.2 in 2001 and then declined to 11.6 in 2002. In 2002, citations per nursing home were approximately 32% higher than the state average of 8.8 in that year.

Figure 7. Average Number of Citations in Area Seven 1998-2002

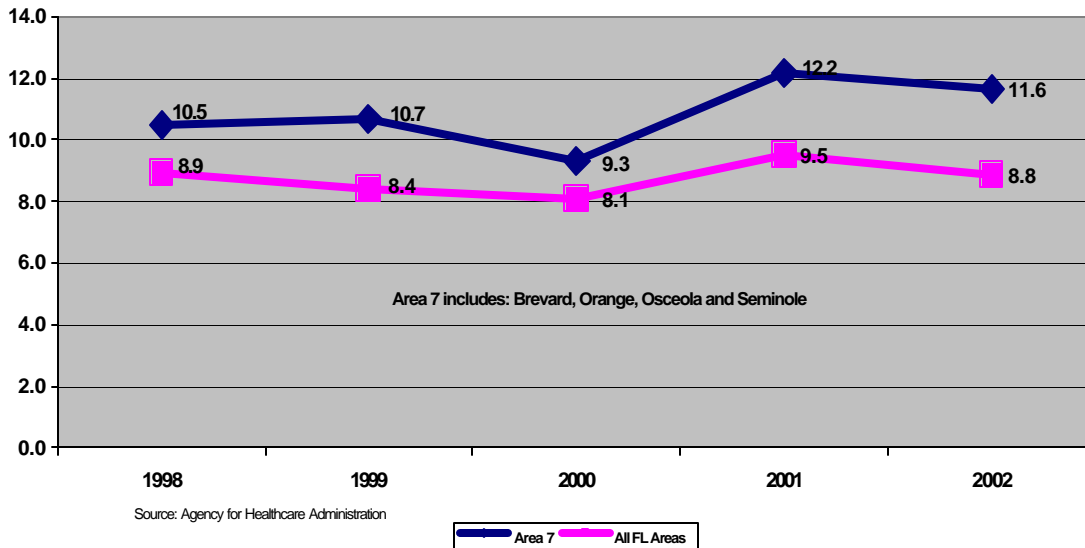
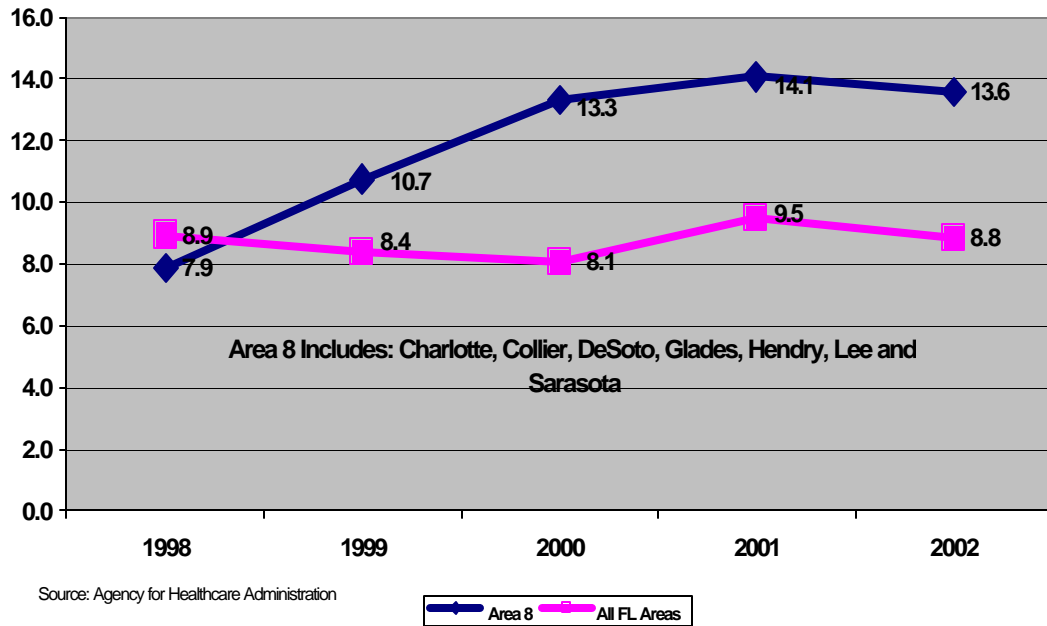


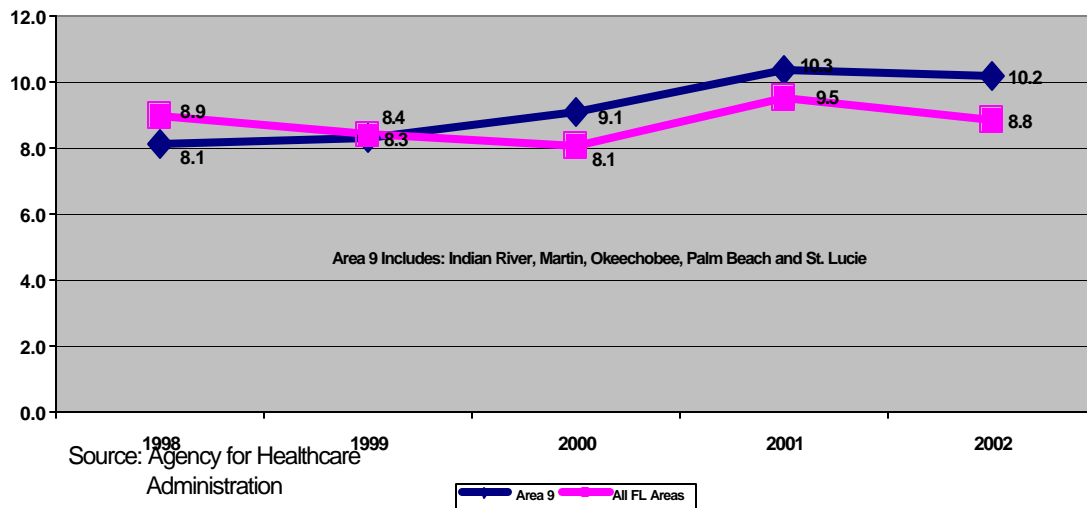
Figure 8 includes Charlotte, Collier, DeSoto, Glades, Hendry, Lee and Sarasota Counties. In each year except 1998, Area 8 significantly exceeded the state average number of nursing home facility citations. In 1998 Area 8 had 7.9 citations per nursing home and facility; the number then climbed to 14.1 by 2001 but declined slightly to 13.6 in 2002. In 2002 it was 55% above state average for that year.

Figure 8. Average Number of Citations in Area Eight 1998-2002



As presented in Figure 9, Area nine includes Indian River, Martin, Okeechobee, Palm Beach and St. Lucie counties. Similar to Area 8, Area 9 sustained generally higher average levels of citations per nursing home facility than the statewide averages. In 1998 the average citations per nursing home was 8.1, and the number climbed to 10.3 by 2000 and declined thereafter slightly to 10.2 by 2002, some 16% above the state average of 8.8 in that year.

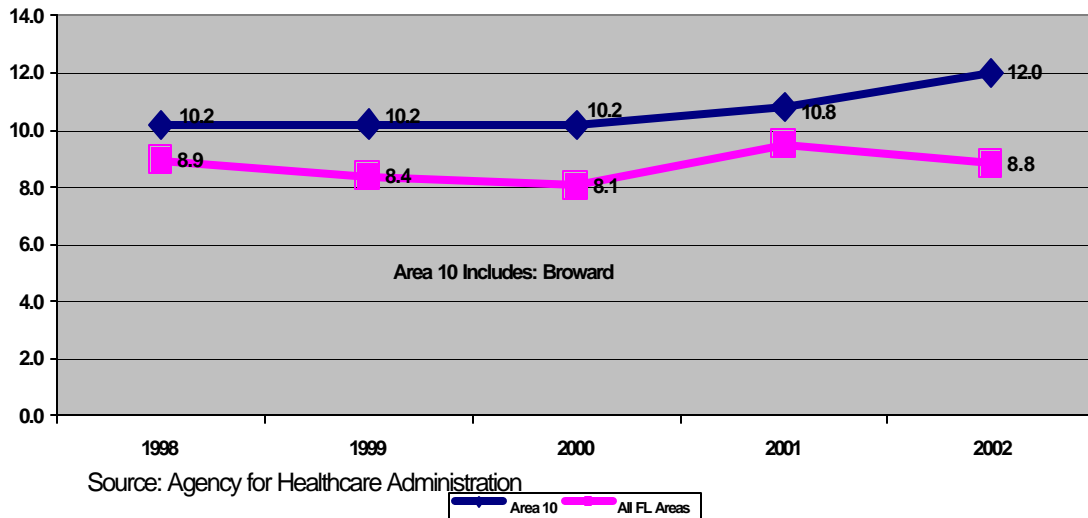
Figure 9. Average Number of Citations in Area Nine 1998-2002



Similarly, as shown in Figure 10, similarly, Area 10, which includes Broward County alone, attained a higher than average number of citations per nursing home facility across the entire time-frame as well. In 1998, Area 10 reported 10.2 citations per nursing home facility, but the number climb to 10.8 by

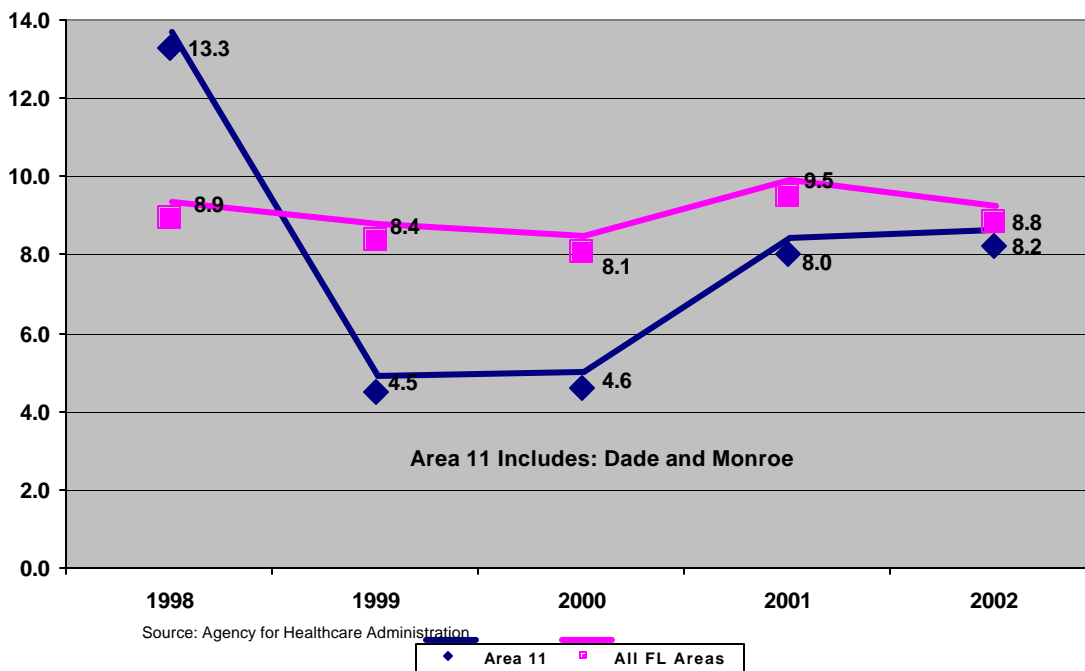
2001 and peaked at 12 in 2002 for the average nursing home facility. This was 36% higher than the state average of 8.8 violations in that year.

Figure 11. Average Number of Citations in Area Ten 1998-2002



Finally, as presented in Figure 12, Area 11, which includes Dade and Monroe Counties region, was under the state average in every year except 1998. In 1998, Area 11 reported 13.3 citations per nursing home facility, which dropped to 4.5 the next year only to increase to 8.0 by 2001, and to 8.2 in 2002, 7% below the state average of 8.2 that year.

Figure 12. Average Number of Citations in Area Eleven 1998-2002



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Center for Economic Forecasting and Analysis (CEFA), with and under the direction of
Keith G. Baker, Ph.D., Senior Vice President and Chief Operating Officer.

Barney Barnett, Chairman; Dominic M. Calabro, President, Publisher and Editor.

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**Florida
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106 N. Bronough St.
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