

Budget Watch



OCTOBER 2014

A SMALL SURPLUS IS PROJECTED FOR THE NEXT FLORIDA STATE BUDGET

It looks like the 2015 Florida Legislature will have a budget surplus for FY2015-16, meaning major budget cuts should not be needed and there should be some money left over for new initiatives and/or tax cuts. After funding a continuation budget, including expected cost increases in current programs, it is anticipated that there will be \$336.2 million (including an allowance for \$1 billion in cash reserves) in General Revenue left over.

This is the fourth straight year in which there has been a projected surplus heading into the legislative session, but this surplus is much smaller than the \$845.7 million surplus projected last year. Still, the continuation of the current string of surplus is a welcome change from the previous four years, which saw shortfalls averaging \$2.7 billion.

These new estimates are contained in the constitutionally-required *Long-Range Financial Outlook* that was recently adopted by the Legislative Budget Commission. This summer's round of state estimating conferences for revenue and expenditure needs was the basis for the *Outlook*, which is produced annually by the legislative Office of Economic and Demographic Research and the House and Senate Appropriations Committees. The *Outlook* looks ahead three years and focuses on General Revenue (GR), the funds that can be spent by the Legislature on anything and that are a major source of funding for education, human services, and criminal justice. The *Outlook* also considers trust funds that can affect the need for GR spending in certain areas of the budget.

There is no projected shortfall through the three-year horizon of the *Outlook*. This *Budget Watch* focuses on the upcoming budget year, FY2015-16.

SURPLUSES/SHORTFALLS PROJECTED BY THE LONG-RANGE FINANCIAL OUTLOOK

(\$ millions)

2008-09	(\$2,334.5)
2009-10	(\$3,306.3)
2010-11	(\$2,654.4)
2011-12	(\$2,510.7)
2012-13	\$273.8
2013-14	\$71.3
2014-15	\$845.7
2015-16	\$336.2

Source: 2014 Long-Range Financial Outlook

The *Outlook* first projects the amount of GR that will be available for the budget. That amount is then compared to the **Base Budget** (recurring appropriations in the current budget) plus an estimate of increased spending needed for a **Continuation Budget**. The difference in projected revenues and expenditures is the projected surplus or shortfall.

The estimate of increased spending is made up of two categories: **Critical Needs** and **High Priority Needs**.

Critical Needs are mandatory increases (based on estimating conferences and other essential items), representing the minimum cost to fund the budget without significant programmatic changes. New initiatives and funding increases above what is required are not included. For example, the cost of funding additional students is included but an increase to per-student funding is not. Maintaining

per-student PreK-12 student funding levels and increased Medicaid costs comprise 72.1 percent of these new “critical needs.”

High Priority Needs are historically funded issues that are typically viewed as “must fund” in normal budget years. These can include the full funding of programs paid for with non-recurring revenues, as well as non-mandatory increases for recurring programs. These are usually calculated by using the three-year average increase for that program. For example, while Critical Needs include only the cost of maintaining per-student funding, this year’s High Priority Needs include a 2.1 percent increase in per-student funding (the average increase of the last three years).

The base budget totals \$27.037 billion. The *Outlook* includes a required repayment of \$214.5 million to the Budget Stabilization Fund and \$1.0 billion to be left in reserve. Add to this the estimated critical and

BUDGET OUTLOOK - FY2015-16

General Revenue - \$ in millions

	RECURRING	NON-RECURRING	TOTAL
2014-15 Base Budget	\$27,036.7	-	\$27,036.7
Transfer - Budget Stabilization Fund	-	\$214.5	\$214.5
Increase - Critical Needs	\$437.4	\$35.7	\$473.1
Increase - High Priority Needs	\$434.9	\$311.2	\$746.1
Cash Reserves	-	\$1,000.0	\$1,000.0
 Total Needed for Continuation Budget	 \$27,909.0	 \$1,561.4	 \$29,470.4
 Available General Revenue	 \$28,336.7	 \$1,469.9	 \$29,806.6
 Balance	 \$427.7	 (\$91.5)	 \$336.2

Source: TaxWatch analysis of the 2014 Long-Range Financial Outlook

high priority needs of \$1.219 billion, and \$29.470 billion is needed to fund a continuation budget; and with \$29.807 billion expected to be available, a surplus of \$336.2 million results.

There will be \$29.807 billion in GR available in FY2015-16, which is actually a bit less than was available last session. However, \$2.8 billion of last session's available GR was non-recurring, compared to \$1.5 billion in non-recurring funds available for next session.

The most recent General Revenue (GR) Estimating Conference (August 7, 2014) slightly increased the FY2014-15 estimate by \$49.2 million (0.2 percent), but the FY2015-16 estimate was reduced by \$84.1 million (0.3 percent). In addition, actual collections for FY2013-14 came in \$106.7 million below the previous (March 2014) estimate. In total, these estimates mean that legislators will have \$141.6 million less for the FY2015-16 budget than was anticipated based on the last estimates made in March of this year.

What Are the Estimated Increased Needs?

The components of the \$1.219 billion in increased GR spending needs are (by budget area):

- \$236.3 million for PreK-12 Education (\$159.5m in Critical Needs);
- \$214.5 million for Higher Education (\$25.2m in Critical Needs);
- \$257.4 million for Health and Human Services (\$155.9m in Critical Needs);
- \$77.5 million in Transportation and Economic Development (\$19.9m in Critical Needs);
- \$172.0 million for Natural Resources (\$0 in Critical Needs);
- \$25.6 million for Criminal Justice (\$0 in Critical Needs);
- \$44.4 million for General Government (\$25.7m in Critical Needs); and
- \$191.5 million for Administered Funds (Statewide Issues) (\$119.8m in Critical Needs).

Critical Needs

PreK- 12 Education – \$104.9 million is provided to maintain the current PreK-12 budget by restoring non-recurring revenues appropriated in the current budget and replacing estimated reduced revenue for the Educational Enhancement Trust Fund (EETF) and the State School Trust Fund. In addition, the 13,244 new students expected next year will cost \$418.6 million (at the current per-student funding level). Increasing property values will produce \$366.9 million in additional school property taxes (at the current millage rate), which could pay for most of this increase, meaning \$51.7 million in GR would be needed to meet this need. Another \$2.9 million is needed to meet the enrollment increase in the Voluntary Pre-K program.

In total, critical needs for PreK-12 education total \$159.5 million (to maintain current per-student funding).

Higher Education – The reduced revenue estimates for the EETF also impact higher education, increasing the amount of GR needed to maintain current spending. However, a reduction in the number of students eligible for Bright Futures scholarships will offset part of those reduced revenues. Critical needs in higher education will require \$25.2 million.

Health & Human Services – The biggest budget driver is Medicaid, but the current environment makes estimating caseloads and costs difficult. Changes related to the Patient Protection and Affordable Care Act had a significant impact on the caseload forecast, as Medicaid enrollees are being moved from one eligibility category to another.

Total expenditures (federal and state) for Florida's Medicaid program are expected to drop by \$1.6 billion (6.9 percent) next year, but that is due to the expiration of the federally funded Low Income Pool (LIP) program for hospitals. State GR expenditures are expected to rise by \$181.7 million, but will be offset in part by reduced state funding needs in Kidcare (due to an increased federal share) and Temporary Assistance for Needy Families (due to decreased caseloads), as well as increased revenue available in the Tobacco Settlement Trust Fund. Overall, critical needs are expected to require an additional \$155.9 million to maintain current programs (without LIP).

Transportation and Economic Development – The Department of Transportation's work program is not funded with GR, so transportation system needs are generally not reflected here; however, one critical needs item is included: \$19.9 million for the state match for federal FEMA disaster funding.

Criminal Justice – The *Outlook* does not project any added funding required for Criminal Justice critical needs. While there is a small estimated increase in the prison population, there is a surplus of prison beds and operational costs are not expected to significantly increase in FY2015-16.

General Government – Critical needs in this area will require \$25.7 million, almost all of which is due to a state law requiring the Legislature to provide money to fiscally constrained counties to offset property tax reductions placed in the Constitution by voters.

Administered Funds (Statewide Issues) – State contributions for state employee health insurance and the Retiree Health Insurance subsidy are expected to increase by \$119.8 million next year, of which \$86.9 million will be funded with GR.

High Priority Needs

Pre K-12 Education – In addition to maintaining per-student funding as discussed above, the *Outlook* includes an increase in per-student funding equal to the average of the last three years. This would be a 2.1 percent increase for the Florida Education Finance Program (FEFP), costing \$72.3 million next year. Increases are also included for VPK (\$3.3 million) and the Florida School for the Deaf and Blind (\$1.2 million).

Higher Education – \$9.1 million is provided to restore non-recurring funding to maintain the current budget for universities, colleges and the Workforce Education Student Information System. Increased funding based on the three-year average appropriations increase is provided for universities

(\$126.9 million), colleges (\$18.4 million), and financial aid programs (\$17.7 million). An increase of \$3.9 million is provided for the new Florida National Merit Scholar Incentive Program, and another \$13.3 million is provided for operational costs for newly constructed facilities already authorized by the Legislature.

Health & Human Services – \$10.1 million is included for additional Medicaid waiver slots for the elderly and individuals with brain and spinal cord injuries, and \$6.5 million is provided for information technology. Increases for the following agency programs are also provided:

Dept. of Children and Families – \$54.3 million for adoption subsidies, community based care, Healthy Families, child abuse investigations, sheriff grants, sex trafficking and exploitation prevention, and homeless coalitions, as well as the restoration of some non-recurring funding.

Dept. of Health – \$17.1 million for Early Steps, cancer and biomedical research, and child protection teams.

Agency for Persons with Disabilities – \$8.4 million for developmental disability services, supported employee and intern programs, and adult day training.

Dept. of Elder Affairs – \$5.0 million for reducing the Community Care for the Elderly waitlist, and Alzheimer’s disease respite services.

Criminal Justice – Funding is included for state attorney and public defender workload increases (\$1.4 million), juvenile justice prevention and intervention programs (\$6.6 million), a revenue shortfall in the State Courts Trust Fund (\$13.5

million), and the renovation and repair of small county courthouses (\$4.1 million).

Transportation and Economic Development –

An increase of \$2.8 million in GR is included for economic development and workforce programs (in addition to \$101.8 million in trust fund spending). Funding for National Guard armories and other military affairs priorities (\$16.6 million) and the Department of State’s library, cultural, historical, and election priorities (\$38.2 million) are also included.

Natural Resources – Although there are no additional critical needs identified in Natural Resources in the *Outlook*, GR funding of \$172.0 million is included for a myriad of environmental and agricultural programs including Everglades restoration, environmental land acquisition and restoration, beach restoration, water projects, and springs protection. Funding is based on the average of the last three years.

General Government – \$13.2 million is included for general repair and maintenance of the state building pool and \$5.5 million is provided for other general government activities.

Administered Funds (Statewide Issues)– GR of \$63.8 million is provided for state employee bonuses and competitive, merit and retention pay adjustments. \$40.8 million is provided by capital improvements for state buildings.

Conclusion

Of course, a budget surplus is preferable to the alternative, which Florida faced for several years following the 2008 recession, but a \$336 million surplus needs to be put into context: it is only 1.1 percent of projected General Revenue spending.

The Outlook also provides for only a \$1 billion GR (cash) reserve. However, recent Legislatures have wanted larger reserves. Last year, the budget left \$1.7 billion in GR reserves (which is now projected to be \$1.5 billion at year-end) and in the last four years' GR reserves have averaged \$2.0 billion. A similar level of reserves next year would require some adjustments to expenditures, even with the surplus.

Governor Scott has stated that, if re-elected, he will recommend increasing per-student spending to its highest level ever, which is estimated to cost more than \$700 million. The *Outlook* includes \$490 million to increase spending by 2.1 percent. The Governor's recommendation would take at least an additional \$200 million, and since the *Outlook* already allocates school property tax growth revenues to the critical needs, the additional cost would all be borne by the state.

Legislation to reduce Floridians' tax burden will certainly be considered next session. There will also be legislators advocating for increased spending in many areas of the state budget.

Spending the surplus also has a compounding effect on future budgets. If the Legislature was to spend the entire surplus, the projected \$1.0 billion surplus in FY2016-17 would be reduced to \$330 million, due to the loss of carryover funds, and the increase in the Base Budget.

But the Legislature does not have to fund all of the \$746.1 million in High Priority Needs identified in the *Outlook*. Those programs will compete with other new initiatives and tax cuts. And if history is a guide, the Legislature will "sweep" some trust revenues into the General Revenue Fund to bolster GR spending. Hundreds of millions of dollars are routinely swept, but last year's total of \$282 million was the smallest amount swept in seven years.

It should also be remembered that these are still estimates. The state's estimators will meet two more times before the 2015 Session is over, and while revenues appear to have stabilized, estimates do change. The *2011 Outlook* anticipated no shortfall for FY2012-13, but subsequent reductions in revenue estimates led to a \$1.2 billion shortfall. There are also risks to the estimates, including economic fluctuations, natural disasters, lawsuits against the state, and the effects of the federal Patient Protection and Affordable Care Act (both positive and negative).

Florida TaxWatch reiterates its recommendation that the Legislature consider this another tight budget year and continue to look for ways to reduce the cost of the current budget, such as the cost-saving recommendations published by Florida TaxWatch. A new list of TaxWatch recommendations for efficiency improvements and cost-savings will be released in the fall. The Great Recession has also taught the state that restraint is needed in good budget times, as those surpluses may be needed if things turn sour in the future.

The 2014 Long-Range Financial Outlook can be found at:
http://edr.state.fl.us/Content/long-range-finacial-outlook/3-Year-Plan_Fall-2014_1516-1718.pdf

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Kurt Wenner, Vice President for Tax Research, is a mainstay on the Tallahassee state budget watchdog scene and is the second-longest serving staff member of Florida TaxWatch.

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