

# Budget Watch



February 2013

## *Governor Scott's FY 2013-14 Budget Recommendations*

Governor Rick Scott's FY 2013-14 proposed budget for the state of Florida totals \$74.2 billion, a \$4.2 billion (6.0 percent) increase over current year spending. This would be the largest budget in the state's history. The budget recommendations include \$27.3 billion in General Revenue spending, a \$2.3 billion increase (9.2%) over current spending.

Even with this increased spending, the state would be left with general revenue reserves of \$1.3 billion, plus another \$925 million in the Budget Stabilization Fund.

The Governor stated that the top priorities in his budget were tax reductions to boost Florida's manufacturing sector and a \$1.2 billion funding increase for K-12 education.

**\$74.2<sub>b</sub>**

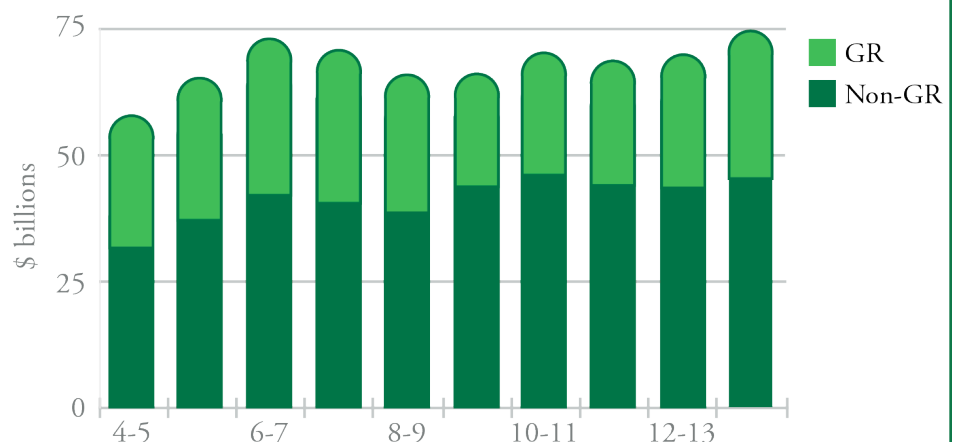
Total budget  
recommended by  
Governor Scott

### *How Did The Governor Get to \$74.2 Billion?*

The size of the Governor's budget proposal came as a surprise to many. The state's economy is picking up, but we are nowhere near the robust revenue growth Florida has enjoyed in the past. Much was made of it being the biggest budget total in the state's history. But it should be remembered that until relatively recently, every new budget was the biggest in history. The Governor's Office was also quick to point out that when adjusted for inflation and population growth, the proposed budget is the 3rd smallest since 2000, only bigger than the last two years. This new budget is \$600 million (0.8%) higher than final appropriations seven years ago—in FY 2006-07—the previous high-water mark and the year before the effects of the Great Recession set in.

Still, a \$4.2 billion increase of current-year spending is sizable.

**Florida's Total Budget**  
(2004-05 - current)



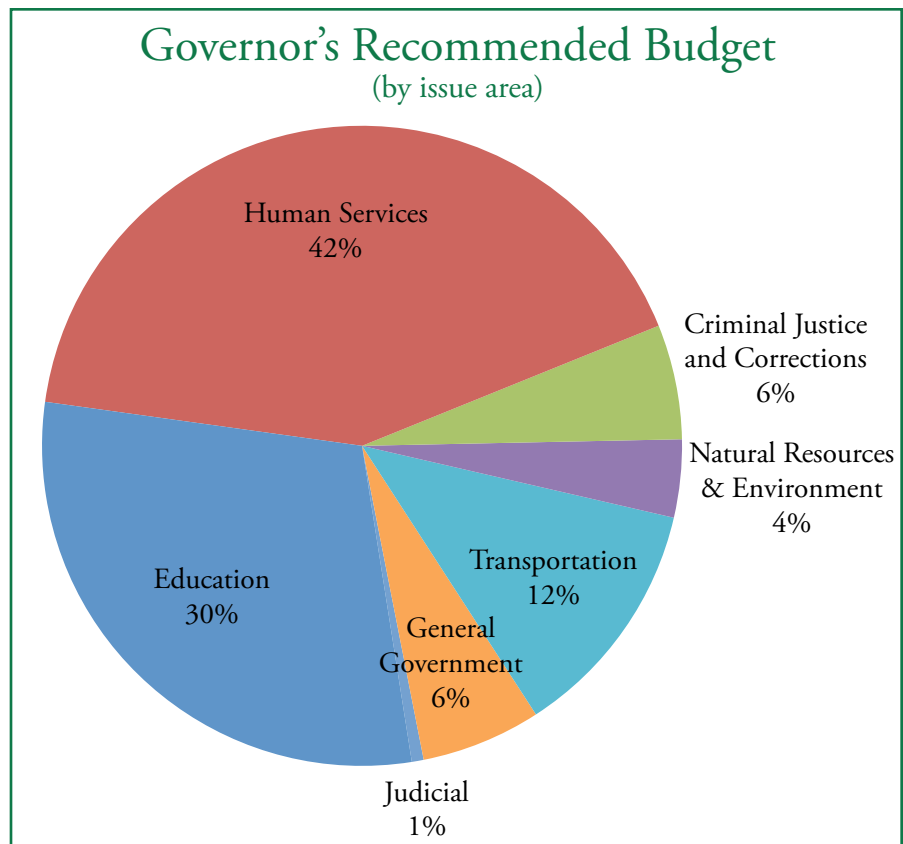
How did the Governor get there and how could he fund so many initiatives while cutting taxes and keeping a healthy reserve?

Looking at General Revenue (GR) first, the proposed budget would spend \$2.3 billion more GR than current year spending, despite estimated GR collections growing only \$1.2 billion from FY 2012-13 to FY 2013-14. While the 2012 Legislature left an anticipated \$1.1 billion in GR cash reserves, that number grew to \$2.1 billion due to more money carrying forward from FY 2011-12 and more revenue in FY 2012-13 than previously estimated. Add to this \$26.0 billion in estimated GR collections, \$200 million from the National Mortgage Settlement, \$174 million from trust fund sweeps proposed by the Governor, carried forward into FY 2013-14, and \$259 million in unused Medicaid and other appropriations from the current year and the Governor was able to fund some prior year deficits and offer \$66 million in tax relief and still have \$28.6 billion in GR available for his budget proposal, \$3.6 billion more than current year GR appropriations. The Governor decided to spend \$2.3 billion of that, keeping \$1.3 billion in reserves. Most of that new GR spending (\$1.6 billion) would go to education.

The proposed budget also includes well over \$1 billion more in federal funding than the current year. Most of this is from increased Medicaid spending, including \$703.5 million for primary care physician rate increases that are mandated by the new federal health care law. The federal government is paying 100 percent of that cost.

The other big spending increase in the Governor's budget is transportation. Through some new revenue being directed to transportation by the 2012 Legislature and some increased bonding (see Transportation section below), the Governor was able to increase spending for transportation by \$917 million.

Therefore, the \$4.2 billion in increased spending can be attributed to the Department of Education (\$1.7 billion), the Agency of Health Care Administration (\$1.6 billion) and the Department of Transportation (\$0.9 billion). Add in the \$315 million for state employee bonuses and a \$257 million increase for the Department of Economic Opportunity, and the other state agencies saw a combined decrease in funding of \$570 million.



# *BUDGET HIGHLIGHTS*

## *Education*

The centerpiece of his education plan is the \$1.2 billion increase for K-12 education. This would increase per-student spending by \$412—or 6.45 percent—bringing the total per student to \$6,799. The budget would provide a total of \$18.5 billion for public schools, with \$10.7 billion coming from state funds, the largest contribution ever. Required local effort—the amount of property taxes the legislature requires school districts to levy to participate in the education funding program—is set at \$6.8 billion. The required millage rate would stay the same. The \$18.5 billion in total funding also includes just under \$1 billion in discretionary local taxes.

Almost two-thirds of \$1.2 billion K-12 increase is going to employee benefits. The Governor is recommending a \$480 million pay increase for teachers - \$2,500 across the board. Another \$296 million is provided to amortize the unfunded actuarial liability for school board employees in the Florida Retirement System.

### **Other K-12 Education Funding Highlights**

- Funding for the more than 20,000 new students expected to be enrolled.
- \$250 per teacher for purchasing classroom resources and supplies for their students.
- Increasing the School Recognition Program award from \$100 to \$125 per student.
- \$74.9 million for school safety, a 16.2 percent increase.
- \$100 million to districts for digital learning initiatives.
- \$100 million in general revenue for charter school fixed capital outlay needs.

**Early Learning** - Funding for Early Learning—which includes the Voluntary Pre-K program—would receive a minor funding reduction (0.5 percent) under the Governor’s proposal.

**Higher Education** - The proposed budget would provide \$1.1 billion for the state college system—a \$74 million increase. The State University System would receive \$3.85 billion—a \$393.3 million increase. The Governor does not propose any tuition increase and even provides universities \$118 million in an agreement to not raise tuition. The Governor is also recommending that tuition be fixed for all four years of an undergraduate’s university education. The higher education budget also includes \$167 million in performance funding and a special \$15 million appropriation to help the University of Florida achieve a national ranking in the top 10. The Governor does cut funding for several private colleges that the state has historically funded to subsidize tuition in areas where the state has a degree shortage.

And while the Public Education Capital Outlay Fund again has no money for bonding, the Governor does recommend \$244 million in cash for higher education capital needs. These include \$74 million for critical college and university maintenance projects, and \$100 million to be competitively awarded by the Board of Governors to universities for STEM-related facilities.

## *Cost Savings and Efficiencies*

The Governor's budget includes \$1.2 billion in reductions and cost savings, all of which has been re-allocated to other funding. Much of these savings comes from eliminating state positions (see State Employee section below). General revenue savings total \$200 million.

The Governor also includes a number of efficiency measures that have been recommendations of Florida TaxWatch's Government Cost Savings Task Force.

Among these are:

1. Procurement Transformation – improving state purchasing processes and expanding the use of state term contracts, savings achieved will be put in reserve;
2. Vendor Performance and Contract Management – this includes the renegotiation of large contracts to save \$21.9 million;
3. Real Estate Optimization – better utilize existing space, reduce energy consumption, achieve lease cost savings and optimize facility operations, saving \$8.4 million. The proposal also includes a \$6.1 million investment to consolidate private office space into state buildings and improve energy efficiency, savings another \$13 million over the next six years;
4. Human Resource Shared Services – a business case will be developed to determine the most feasible and cost-effective means of providing human resource services;
5. Employee Management and Talent Management – improve performance objective and assessments, including \$147.9 million for bonuses to reward up to the top performing 35% of state employees;
6. Fleet Management Services – centralized policies, oversight, planning and coordination, of the state's vehicle utilization, acquisition and maintenance;
7. Medicaid Fraud – enhance fraud and waste reduction, including an new approach for collecting and interpreting data, which will help deny unusual claims, investigate suspicious behavior, and address inappropriate payments. This is expected to recover at least \$6.80 in Medicaid overpayments for every \$1 spent in fraud prevention and recovery; and
8. State Employee Health Insurance - all employees would pay the same amount for health insurance coverage, reducing the state's contribution for health insurance coverage for employees in the Senior Management Service and Selected Exempt Service systems.

## *Taxes*

The Governor is not recommending any tax or fee increases to fund his proposed budget. The only measure that will positively affect revenue is an expected \$21.6 million increase in lottery funds as a result of a proposed new on-line game and increase lottery advertising.

He is recommending \$161.0 million in annual tax relief for businesses, although state coffers will only lose \$66.1 million in the next budget year. The Governor says he is paying for this tax relief through cost savings measures throughout state government.

**Manufacturing Machinery and Equipment (M&E)** - The Governor is recommending an expansion of the sales tax exemption for the purchase of machinery and equipment. The exemption would apply to all manufacturing M&E purchases, not just M&E for new businesses or ones that could show the new equipment would increase output by at least 5 percent. The removal of this restriction—which has created a competitive disadvantage for Florida manufacturers—is a long-standing Florida TaxWatch recommendation. This will save businesses \$115.3 million in state sales taxes and \$26.0 million in local sales taxes annually. However, since the exemption does not take effect until January 1, 2014—halfway through the fiscal year—the state will only lose \$57.7 million for the upcoming budget.

The Governor is also recommending another \$25,000 increase in the corporate income tax (CIT) exemption, raising it to \$75,000. This is expected to free another 2,000 businesses from paying the CIT. This exemption is worth \$19.7 million annually, \$8.4 million the first year.

## *Health and Human Services*

The recommended budget proposes \$30.9 billion in total funding for the Health and Human Services policy area, including a \$1.5 billion increase for the Agency for Health Care Administration, which handles Medicaid. Medicaid spending would increase by \$1.7 billion, and the budget includes funding for all the mandatory provisions of the Patient Protection and Affordable Care Act (PPACA), the new federal health care law. While the expanding Medicaid eligibility provision of PPACA is optional for the states, it is expected the mandate to have health insurance will push many that are currently eligible but not enrolled onto the Medicaid rolls. The federal government will pay 100% of the cost of people added due to increased eligibility, but normal federal/state cost sharing (currently 58.67 percent fed share) applies to those currently eligible but not enrolled. The budget includes \$116 million for these new enrollees (assumes 30 percent of those eligible will enroll next year.) The Governor said at his budget release that today is not the day to decide on the optional Medicaid expansion.

### **Other Health and Human Services budget highlights:**

- Hospital Medicaid reimbursement rates—except for children's and rural hospitals--would be cut by two percent. County health departments would have their reimbursement rates cut by \$9.1 million.
- The optional services of chiropractic and podiatric would no longer be covered under Medicaid.

- \$24 million to fund 2,000 slots in the Nursing Home Diversion Waiver and the Aged and Disabled Adult Waiver, to help elderly remain in the community for as long as possible.
- \$80 million for graduate medical education and expanding the Statewide Medicaid Residency Program at the Department of Health, providing 700 residency slots.
- \$36.3 million to bring an estimated 750 individuals off of the Developmental Disabilities Medicaid Waiver waiting list.
- Mental health and substance abuse funding will maintain current levels.

### *State Employees*

While not recommending a salary increase (except for teachers), the Governor's budget does include funding for state employee bonuses, including \$167 million for across the board bonuses of \$1,200, as long as the employee has at least a satisfactory performance evaluation. There is also \$148 million for awards of \$5,000 for employees receiving an employee evaluation of outstanding and \$2,500 for employees receiving an employee evaluation of commendable. These bonuses would be at the agency's discretion and could reward up to 35 percent of the agency's workforce. Additional bonuses are authorized for Department of Corrections staff at a cost of \$21.2 million.

The Governor proposes cutting the number of state positions by 3,647 (3.1 percent), 600 of which have been vacant for more than 180 days. Most of the reductions are in the Department of Corrections, which loses 2,376 positions, mostly from the privatization of inmate health services. Most of the health service workers are expected to find jobs with the private contractors.

### *Public Safety*

The recommended Public Safety budget is funded at \$4.7 billion, an increase of 2.1 percent. This includes an \$84.4 million increase for the Department of Corrections to fill critical security posts at high-risk facilities, and to fund programs aimed at reducing recidivism.

No prisons would be closed or privatized, although 14 work release centers would be privatized. The 220 positions at these centers would be re-assigned within the department.

The Department of Juvenile Justice's budget would be reduced by \$9.7 million (2 percent) because, according to the Governor's Office, the demands and costs of the juvenile justice system are decreasing.

Twenty new judges would be added to the state court system (\$4.4 million), and \$6 million is provided to help close pending foreclosure cases.

## *Environment*

The total recommended budget for environmental programs is \$2.9 billion, a reduction of \$225 million (7 percent). Other environmental highlights include:

- \$60 million for Everglades restoration, double the amount spent this year
- \$75 million for Florida Forever land purchases, up from \$8.7 million this year. \$50 million would come from the future sale of state lands and \$25 million would come from general revenue.
- \$25 million for beach restoration
- \$19 million for state park improvements

## *Transportation*

The Governor recommends increasing the Department of Transportation budget by \$917 million, to \$9.1 billion. Of this amount, \$8.3 billion goes to support the work program. The Governor was able to increase transportation funding in two ways. Last year, the legislation authorized a \$190 million annual transfer of motor vehicle fees from general revenue to the State Transportation Trust Fund. The Governor's budget also appropriates \$730 million in bond proceeds for seaport and turnpike projects and right-of-way acquisition. These 20- and 30-year bonds will cost nearly \$800 million in interest over their lifetimes. This is the only bonding the Governor is recommending. In fact, because more debt service than new bonding is included in the budget, total state bonds outstanding will decrease.

**Florida TaxWatch applauds the increased commitment to transportation. Past Florida TaxWatch research has shown that quality infrastructure is vital to our state's economy, and transportation projects create jobs and give Floridians a positive return on their investment.**

## *Economic Development*

The largest percent increase in spending in the Governor's budget is for the Department of Economic Opportunity. Funding is proposed at \$1.9 billion, a \$257 million (27.6 percent) increase from the current budget. Highlights include:

- \$105 million for Flexible Funding for Economic Development Tools (includes incentive funding)
- \$173.7 million for Reserve State Funds for Economic Development Opportunities
- \$16 million increase in Space Florida funding
- \$3 million to establish and market and Florida Statewide Business Brand
- \$55.3 million in additional federal funding for Regional Workforce Boards
- \$50 million for funding to local governments for affordable housing

- \$48 million in additional federal funding for Small Cities Community Development and Low-Income Weatherization and Heating Assistance grants.

Additionally, the proposed budget follows the recommendation of the very recent Florida TaxWatch study, Investing in Tourism, and allocates \$31.5 million in additional funding to “support and expand Florida’s tourism industry.”

## *CONCLUSION*

Florida TaxWatch finds much to commend in the Governor’s budget. It strikes a sound balance between increased funding for critical services and still striving to make government leaner and more efficient. There are cost savings and budget reductions in virtually all state agencies. With an eye towards the future, there are “enterprise-wide” efficiencies that will help make government more cost effective for years to come. Many of these were recommended by Florida TaxWatch’s Government Cost Savings Tax Force.

Supporters of education, human services, the environment and economic development have all found things to be happy about in the Governor’s proposed budget.

Just like private sector employees, the last few years have not been easy for state employees. Job security has not been strong, pay has not increased and many have been asked to do more with less. And while it was the right thing to do, having state employees contribute towards their retirement reduced paychecks. Increased pay and bonuses for teacher and state employees, especially when it rewards the best performers, has been overdue.

Florida TaxWatch also commends the increased funding for transportation and economic development, along with the Governor’s commitment to make economic development incentive spending more accountable and transparent.

The proposed budget increases funding by \$4.2 billion with no tax or fee hikes, some tax relief, reducing overall bonding and keeping healthy reserves.

Of course, the Governor’s budget is only the beginning of the budget process. The Legislature will have its say and already leaders are hinting that they may not be able to do all the Governor recommends. Florida TaxWatch will work to help ensure that while spending is increasing, cost savings and improvements in the way government does business continue to be a priority.