

# BUDGET WATCH



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## ***The Governor's Budget Recommendations for FY 2008-09 Proposal Uses \$1.1 Billion in Trust Fund Transfers to Balance the \$70 Billion Budget***

Governor Charlie Crist released his proposed \$70.0 billion state budget for FY 2008-09 today. The Governor recommends dealing with declining general revenue estimates by using \$1.1 billion in “reserves”, basically transferring the money from various trust funds to the General Revenue Fund. He also proposes using \$600 million from lottery “enhancements” and the gambling compact he signed recently with the Seminole Tribe. His budget recommendations include only \$300 in agency base budget reductions.

He is also proposing more than \$300 million in increased required local effort school property taxes over last year's budget.

By relying so heavily on trust fund transfers, the Governor's budget faces a constitutional hurdle. The budget uses \$900 million in non-recurring revenue to fund recurring programs, which is 3.23% of total general revenue. A 2006 constitutional amendment limits the use of such one-time money to 3%. It requires a three-fifths vote of the legislature to exceed that limit.

The transfers include \$740 million from various agencies' trust funds, including \$180 million from housing funds and \$97 million from environmental land acquisition funds. The Governor also proposes using \$400 million from the Lawton Chiles endowment, which contains the state's tobacco settlement money.

It provides \$138 million to hold schools harmless from the property tax effects of Amendment 1. He also wants to provide \$26.2 million to offset any property tax losses for fiscally constrained counties (which the legislature required).

This budget totals \$69.962 billion, which is almost \$2 billion than the one passed by the legislature last year. After adjusting for the Governor's vetoes and subsequent budget cuts, this budget proposes to spend about \$300 million less than the current year. It also adds about 1,300 new positions, mostly in Corrections, due to increased prisons.

## ***Budget Highlights***

The big themes for his budget release were education and economic development.

### *Education*

The Governor is recommending \$1 billion addition funding for the state's K-12 system. This includes a 5.5% in per-student funding – up \$394, for a total of \$7,606 per student.

He is proposing \$847 million for new teachers and additional classroom space to meet the requirements of the class size amendment. There is also \$467 million for teacher bonuses.

In higher education, the Governor funds new student enrollment at the 11 state universities (\$52 million) and at community colleges (\$56 million), along with a \$23 million increase for medical schools at Florida State University, Florida International University, and University of Central Florida. He is recommending \$101.5 million for challenge grants that require matching funds for the endowment funds of state universities and community colleges.

### *Economic Development*

The proposed budget includes \$386 million in economic development incentives, including \$100 million to encourage investments in alternative energy and \$208.5 million to expand existing Florida businesses and attract new development in strong and growing economic sectors, including \$40 million for Florida's film and entertainment industry.

### *Health Care*

The budget would increase funding for children's health care, adding 46,000 children to KidCare. The Governor also proposes \$63.9 million to make low-cost health insurance options available to Florida's uninsured. The budget does reflect an anticipated \$163 million reduction in Medicaid, coming from cuts to hospital reimbursements, services for non-U.S. citizens, and savings expected by putting more poor people into managed care.

### *Natural Resources*

The recommendations include \$200 million in energy and climate change initiatives, \$300 million for Florida Forever, and \$200 million to continue restoring Lake Okeechobee and the Everglades. It also includes \$60 for alternative water supply development.

### *Public Safety*

The Governor's \$5.2 billion recommended public safety budget includes \$342.9 million for new prison beds, \$28.8 million to significantly expand substance abuse treatment for inmates and probationers, and \$3 million for grants to enhance local prevention, law enforcement, and prosecution efforts to combat gang activity.

### *Taxes*

The Governor is recommending two more sales tax holidays, one for hurricane preparedness and one for back-to-school. These two holidays will save taxpayers \$36 million.

His recommendations did not include a reduction in the state communications services tax, which he recommended last year.

### ***What Happens Next?***

The Governor's recommended budget is the starting point for the legislature to build the next state budget. However, the Governor based his budget on the latest revenue estimates from November. With a new estimating conference coming up, and the likelihood of more reductions, his priorities may be in danger.

Additionally, oral arguments began yesterday in the Florida Supreme Court over the legality of the gambling compact the Governor signed with the Seminoles. He is counting on that money for his recommendations.

Initial legislative reaction has been cool. Both the House and Senate budget chiefs quickly issued statements implying that the trust fund transfers will not fly, and that they are looking for more agency budget cuts. Chief Financial Officer Alex Sink also weighed in with a statement warning that the proposed \$129.5 million transfer from the Workers' Compensation Administration Trust Fund "will require the state to raise Workers' Compensation assessments—taxes—on Florida businesses as early as January 2009."

**This *Budget Watch* was written by Kurt Wenner, Director of Tax Research.  
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