

BUDGET WATCH



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Challenges and Constructive Suggestions to Successfully Guide Florida's Fiscal Ship of State*

November 7, 2002

Dear Gov. Bush,

Congratulations on winning the honor of leading our state for the next four years. Unfortunately, you'll have little time to relish your victory as you turn your attention to the challenging fiscal realities facing Florida.

While growth revenues are in short supply, the cost of running the state is continuing to rise. Unfortunately, we expect that several difficult circumstances will combine to make balancing the budget even tougher than usual.

Taken alone, any one of these factors would be a challenge to deal with. Taken together, they can cause serious heartburn.

And if these thoughts aren't sobering enough, remember that the state must pay for the newly adopted, costly constitutional amendment mandating lower class sizes, which could cost as much as \$27.5 billion in the next eight years.

But first, there's a \$1.2 billion dent in the budget to deal with. That's because the Legislature last session spent \$1.2 billion of Florida's nonrecurring revenue on recurring expenses. The expenses will still be there next year, but the money will have to come from someplace else or from spending cuts. Expected growth in tax revenues will offset some of the shortfall, but not all of it.

*This *Letter to the Governor* from Florida TaxWatch President and CEO Dominic M. Calabro first appeared in the *Tallahassee Democrat* and several other Florida daily newspapers on November 10, 2002.

Medicaid costs are continuing to rise, taking a larger chunk of the state budget. Not only are there more clients in the program, but also the cost of health care, especially prescription medication, is rising faster than the overall rate of inflation. Welfare reform and its cost savings quieted Medicaid's appetite for government dollars for a few years, but now it is again threatening to gobble the budget.

In addition, the state has to pay for more than 60,000 additional students in the K-12 school system just to keep up with normal growth in the student population. And that's not counting the additional students entering our community colleges and universities.

Also, to deal with unfortunate problems, the Department of Children & Families is requesting an additional \$430 million in funding for the next fiscal year. DCF says it expects nearly half to come from federal sources, but that still leaves a big bill for Florida taxpayers.

Added to that, because of a constitutional revision passed in 1998, the state must begin paying for the full cost of the state judicial system on July 1, 2004, taking the burden from local governments. The total cost of the court system is about \$600 million, of which about \$150 million is collected by charging for court costs. Picking up the tab for the rest will result in an expense to the state of approximately \$450 million.

And a depressed equity market has reduced the value of the assets in Florida's retirement system – from more than \$100 billion to about \$80 billion. Reductions in contributions to the retirement system saved some money in recent years, but now the state can no longer rely on reaping the benefits of lower government contributions to the Florida Retirement System.

More lost revenue is expected because of a 2001 change in the federal tax code that phases out the estate tax. According to the state constitution, Florida's estate tax is simply a share picked up by "piggy-backing" onto the federal tax – no federal estate tax credit means no state estate tax collections. The lost revenue from the estate tax alone is expected to create a \$173 million shortfall for the sunshine state.

Moreover, the budget is going to lose money from the state intangibles tax, which will be bringing in less revenue now that the Legislature has raised the exemption limits.

Florida TaxWatch is committed to helping you and our state find common-sense, short- and long-term solutions to these significant fiscal problems.

I'm sure you recognize that not all of these budget requests can be met, and not all of them should be fully funded. TaxWatch is committed to helping you find up to \$3 billion in savings in the state budget, which can be accomplished through a variety of means.

We believe you can increase the collection of federal funds for state programs without increasing state spending by identifying areas where there may be under-utilized matching funds. In fact, some of your agency heads are currently working with Florida TaxWatch members who perform this service for a living.

Enhancing the efficiency and productivity of state agencies is another way to potentially save millions. For example, by consulting with the winners of Davis Productivity Awards, who are recognized by the state, the Florida Council of 100, and Florida TaxWatch for innovative government service, the state could amplify the savings created by these outstanding individuals and work groups.

Budget cutting is essential to dealing with the expected shortfalls. By eliminating marginal programs, and by working with the Auditor General's Office and the Office of Program Policy Analysis and Government Accountability, the state can reduce the fiscal demands on taxpayers.

Finally, if you do need to raise additional revenue, do so in a thoughtful manner that improves our state's competitiveness in global and interstate markets, enhances our ability to attract capital investment, and creates good-paying jobs. TaxWatch, through its Center for a Competitive Florida, is working with many statewide groups and top business leaders to evaluate the potential for beneficial tax reform, and expects to produce a report early next year.

In your favor is the fact that Florida's economy and budget are relatively better off than most. And you'll have help – Florida TaxWatch has discussed these issues with the incoming leadership of the House and Senate, who have committed to actively working with us on these ideas.

These are very challenging, though not impossible, times. You might want to take some antacid before you roll up your sleeves and get to work. We're confident that with care and prudence, you can do what's best for Florida's taxpaying citizens and guide our state on a healthy and prosperous path.

For a copy of the report, please call:

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Access and download the report at:

www.floridatxwatch.org

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About Florida TaxWatch

Florida TaxWatch is the only statewide organization entirely devoted to protecting and promoting the political and economic freedoms of Floridians as well as the economic prosperity of our state. Since its inception in 1979, Florida TaxWatch has become widely recognized as the watchdog of citizens' hard-earned tax dollars. The nationally distributed *City and State* magazine (now *Governing* magazine) published a poll of the nation's statewide taxpayer research centers. Based on this poll, the publication cited Florida TaxWatch as one of the six most influential and respected government watchdogs and taxpayer research institutes in the nation.

In recent years, news stories about Florida TaxWatch have run in all Florida newspapers, *The Wall Street Journal*, *The New York Times* and *The Washington Post*. In addition, Florida TaxWatch has been featured on the prestigious *MacNeil/Lehrer Newshour*.

Florida TaxWatch is a private, non-profit, non-partisan research institute supported by voluntary, tax-deductible membership contributions and philanthropic foundation grants. Membership is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, corporations, professional firms, labor unions, associations, individuals and philanthropic foundations -- representing a wide spectrum of Florida's citizens.

Florida TaxWatch's empirically sound research products recommend productivity enhancements and explain statewide impact of economic and tax and spend policies and practices. Without lobbying, Florida TaxWatch has worked diligently and effectively to build government efficiency and promote responsible, cost-effective improvements that add value and benefit taxpayers. This diligence has yielded impressive results: through the years, three-fourths of TaxWatch's cost-saving recommendations have been implemented, saving taxpayers over \$6.2 billion (according to an independent assessment by Florida State University). That translates to approximately \$1,067 in added value for every Florida family.

With your help, we will continue our diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and that government agencies are more responsive and productive in the use of your hard-earned tax dollars.

The Florida TaxWatch Board of Trustees is responsible for the general direction and oversight of the research institute and safeguarding the independence of the organization's work. In his capacity as chief executive officer, the president is responsible for formulating and coordinating policies, projects, publications and selecting the professional staff. As an independent research institute and taxpayer watchdog, the research findings, conclusions and recommendations of Florida TaxWatch do not necessarily reflect the view of its members, staff or distinguished Board of Trustees.

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