

Florida's 2001-2002 Budget Squeeze: Slowing Revenue Growth Slams Into Higher Demands for Services and Spending Commitments

This is the first in a series of Budget Watch alerts that Florida TaxWatch shall be releasing between now and the end of the 2001 Legislative Session. In this first issue, Florida TaxWatch:

1. contrasts programs and issues in the FY 2001 budget (enacted by the Legislature in May 2000) which benefited so greatly from the continued unparalleled growth in the national economy with a significantly less optimistic outlook for programs and issues in the FY 2002 budget;
2. reviews funding requirements for existing programs and initiatives and the significantly lower revenues likely to be available and contrasts this with particular programs requiring increased funding for 2002 and programs which traditionally receive funding for workload and/or price level increases;
3. recommends guiding principles for coping with the impending budget squeeze; and
4. identifies the cost saving evaluation criteria it uses to determine which state programs and spending measures are deemed to be worthy of retention, elimination, consolidation, outsourcing or efficiency/effectiveness enhancement.

The 2000-2001 Budget: Flush with Funding Opportunities

The expanding ninth year of economic activity in 2000 added more than \$4.0 billion of funds available to the state coffers. This increased revenue (\$2.5 billion recurring and \$1.5 billion non-recurring) allowed the Legislature to enhance the funding for existing programs and provide continuing tax relief for the taxpayers of Florida. Selected major issues that benefited were:

● Taxpayer relief	\$1.0 billion
● Increased Public School (K-12) funding	\$1.0 billion
● Medicaid	\$300 million
● Surface Water/Waste Water programs	\$150 million
● Everglades Restoration	\$100 million
● Transportation (Road) projects	\$200 million
● Other programs	\$200 million

The 2001-2002 Budget: Flush with Higher Demands for Service and Spending Commitments

The outlook for the 2002 budget is significantly less optimistic than last year's. The revenue increase is estimated to be only \$1.9 billion (\$1.2 billion recurring and \$0.7 billion non-recurring), not the \$4.0 billion as in 2001. The recurring funding requirements for existing programs and initiatives will exceed the projected \$1.2 billion increase in recurring revenues even before the consideration of new or enhanced programs. The following identifies selected existing programs that require increased recurring funding in FY 2002:

● Taxpayer relief:	
- 1/2 mill intangible tax reduction	\$250 million
- second half of per-drink tax	\$50 million
- sales tax holiday	\$35 million
● Medicaid	\$978 million
● FY 2001 Program annualizations	\$100 million

The above recurring programs total more than \$1.4 billion; \$200 million more than the estimated increase in recurring revenues for FY 2002. And this does not include increased funding for programs that traditionally receive funding for workload and/or price level increases, such as:

● Public Schools (6.0% increase)	\$400 million (est.)
● State Universities- Community Colleges	\$ tbd
● Social Services	\$ tbd
● Juvenile Justice/Criminal Justice	\$ tbd
● Judicial System	\$ tbd
● Salary increase for state employees	\$150 million (est.)

● Transportation (Mobility 2000)	\$200 million
● High Speed Rail initiative	\$ tbd
● Everglades Restoration	\$ 200 million (est.)
● Article V. Constitutional Requirement to fund state courts	\$ several hundred million by 2004

A very conservative estimate of the additional revenues needed to fund the \$200 million more that is needed to fund existing recurring programs plus the additional \$750 million required for programs that traditionally require funding at a level consistent with previous budgets would be \$950 million--dollars that are not available.

Guiding Principles for Coping with the Budget Squeeze:

There are four possible strategies, or a combination thereof, for eliminating the slowing of revenue growth, higher demand for services and spending commitments (listed below). Appropriate budgetary policy and taxpayer concerns lead Florida TaxWatch to recommend that the Governor and Legislature opt for strategy number four:

1. Tax and fee increases
2. Fund shift trust funds to general revenue programs
3. Potential further reductions in FRS retirement contribution rate
- 4. Reduce or eliminate non-essential programs/spending**

To implement a budget reduction process that would eliminate non-essential programs and spending, Florida TaxWatch recommends several **guiding principles** (listed below) that have served the state well in its continuing effort to manage its programs effectively. These principles have guided Florida TaxWatch's research and policy analysis of state programs as a government watchdog since 1979. They also have served as guiding principles for Partners in Productivity, a public and private cooperative effort established in 1987 by The Florida Council of 100, Florida TaxWatch and the State of Florida to identify, implement, measure and reward major cost savings and performance enhancements in Florida state government. They similarly have ably served the Frederick Commission that was appointed by the late Governor Chiles in 1991 and charged with making Government more accountable to taxpayers. The guiding principles for coping with revenue budget squeeze are:

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|-----------------------------|-------------------------------------|
| ▶ Meets Taxpayer Priorities | ▶ Customer Driven |
| ▶ Accountable | ▶ Performance-Based |
| ▶ Competitive | ▶ Efficient |
| ▶ Effective | ▶ Essential to State Core Functions |
| ▶ Market Driven | ▶ Subject to Legislative Oversight |

Cost Saving Evaluation Criteria

Florida TaxWatch uses the following criteria for identifying programs and spending as worthy of **retention, elimination, consolidation, outsourcing or efficiency/effectiveness enhancement**:

1. whether the program is constitutionally or statutorily derived;
2. whether the program is duplicative (whether its function was a part of another program within the agency or across agencies);
3. whether the services or products of the program could be more competitively provided via some other mechanism such as being contracted out or privatized;
4. whether the program has an accountability mechanism (such as output or outcome measures); and
5. whether the program is provided as efficiently or as effectively as possible (as measured from its unit cost and performance measures).

Future 2001-2002 Budget Watch Reports in the Series

1999-2000 Davis Productivity Awards (DPA) achievements have produced or are projected to produce significant state government program savings or revenue increases. Beginning with the next Budget Watch report in the series, TaxWatch will be recommending that careful consideration be given, where appropriate, to redirecting and implementing these DPA savings and revenue increases to other program priorities and spending reductions in 2001-2003 and beyond. An estimated \$400 million dollars in savings and revenue increases could result if adaptable DPA-winning achievements are implemented across state government. These are in addition to other cost savings and revenue enhancements that TaxWatch will be recommending based on its criteria for identifying programs and spending worthy of retention, elimination, consolidation, outsourcing or efficiency/effectiveness enhancement. A running account of all Budget Watch recommendations made by Florida TaxWatch between now and the end of the next legislative session will be found here at floridataxwatch.org.

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