

BUDGET WATCH

Florida
TaxWatch
Inc.



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Governor and Cabinet Play Budget "Hide & Seek" and the Taxpayer is "It"

On October 9th, the Governor and Cabinet (acting as the Administration Commission) approved a 4.24 percent or \$477.9 million reduction in general revenue spending for the 1990-91 fiscal year. They had originally called for a general revenue spending cut of \$544 million or 4.8 percent of general revenue in response to a reduction in estimated revenues for 1990-91 of \$503 million (explained in our previous issue).

The Governor's Office of Planning and Budgeting (acting as staff to the Administration Commission) might be commended for their creativity, if not their fiscal responsibility. They discovered \$215.2 million in other trust funds which they used to replace general revenue thereby reducing the actual cut in state spending to \$262.7 million, or a 2.33 percent net reduction. Of this \$215.2 million, TaxWatch has identified \$69.5 million of non-recurring revenues that have been used to prevent spending cuts in recurring programs. For instance, they funded \$31.6 million of HRS programs from the indigent care fund, increasing that fund's 1991-92 deficit to \$95 million. This is not "belt-tightening," it is writing a rubber check. Furthermore, of the \$262.7 million net reduction in general revenue spending, \$58.9 million is either non-recurring or merely spending deferrals to next fiscal year. (See examples of spending cuts below.)

Working Capital Fund Balance is Actually Only \$70 Million

In addition to the "found" \$215 million of trust funds, there was another surprise. The spending cut financial plan includes an \$81.1 million repayment to the Working Capital Fund (WCF) of a loan made to the Department of Transportation not due until 1997. When received this will bring the balance in the WCF to \$150.9 million. Payment, however, is not anticipated to be received until April 1, 1991 assuming no change in the current estimate of transportation revenues. This is a risky assumption given the uncertainty of oil prices and the behavior of Saddam Hussein. Thus, the effective balance in the WCF is only \$69.8 million to cover any future revenue shortfalls or other emergencies through March. Given the downward revision in the official state estimate of the national economy, this is not a good bet for Wall Street and could lead to a reassessment of the state's credit rating.

State Will be in a \$1 Billion Hole in 1991-92

These actions have a dramatic effect on the fiscal outlook for the 1991-92 state budget. Based on current revenue estimates and the approved spending reduction plan, the growth in recurring general revenue for 1991-92 is 7.5 percent or \$810.5 million. Not bad, until one realizes that \$140 million must come off the top to pay for nonrecurring spending cuts; \$227 million to offset the drop in lottery revenues for 1991-92, \$200+ million to fund deficits in indigent care, state employees health insurance and the pension fund. Annualizing this year's pay package and the juvenile justice program will take another \$190 million. Finally, operating the new prisons funded this year will cost \$66 million. Oops! We're out of money. And we haven't even mentioned the mandatory funding for the new public school children (\$408 million) or growth in public assistance and Medicaid (\$260 million). If we want to give state and public school employees a 12 month pay raise, that costs another \$400 million.

Doing all the above would require a billion dollars of new revenues. The growth in required school district property taxes (\$214 million) and raiding what's left of the State Infrastructure Fund (\$240 million) could be used to reduce the deficit for next year to about \$700 million. Sound familiar? It's the same amount of general revenue

1990-91 GENERAL REVENUE REDUCTIONS

AGENCY	ORIGINAL APPROPRIATION	SPENDING REDUCTION (4.24%)	PERCENT REDUCTION	SPENDING SHIFTED TO TRUST FUNDS	NET REDUCTION	NET PERCENT REDUCTION
ADMINISTERED FUNDS	\$83,791,999	\$2,481,486	2.96%	\$0	\$2,481,486	2.96%
ADMINISTRATION	11,822,936	201,920	1.71%	(19,177)	221,097	1.87%
AGRICULTURE	83,905,090	3,936,182	4.69%	(1,270)	3,937,452	4.69%
BANKING/FINANCE	36,359,774	1,139,976	3.14%	(31,315)	1,171,291	3.22%
BUSINESS REGULATION	25,000	0	0.00%	(36,404)	36,404	145.62%
COMMERCE	29,489,367	1,203,140	4.08%	0	1,203,140	4.08%
COMMUNITY AFFAIRS	17,554,488	498,501	2.84%	81,964	416,537	2.37%
CORRECTIONS	761,914,789	25,230,304	3.31%	8,114,000	17,116,304	2.25%
EDUCATION	6,201,519,167	260,987,241	4.21%	101,330,039	159,657,202	2.57%
ENVIRONMENTAL REG	44,214,688	1,055,610	2.39%	(378,485)	1,434,095	3.24%
GAME/FRESH WTR FISH	20,288,196	977,357	4.82%	311,219	666,138	3.28%
GENERAL SERVICES	11,212,334	547,680	4.88%	(1,789,400)	2,337,080	20.85%
GOVERNOR	13,543,921	628,187	4.64%	41,401	586,786	4.43%
HEALTH & REHAB SVCS	3,054,173,998	101,459,254	3.32%	47,384,204	54,075,050	1.77%
HIWAY SAFETY/MTR VEH	102,600,000	59,417,312	57.91%	59,414,994	2,318	0.00%
INSURANCE	378,971	210,954	55.66%	168,762	42,192	33.44%
JUDICIAL BRANCH	383,874,201	7,635,412	1.99%	0	7,635,412	1.99%
LABOR & EMPLOY SEC	20,833,821	905,245	4.35%	(50,105)	955,350	4.59%
LAW ENFORCEMENT	61,974,064	1,506,820	2.43%	0	1,506,820	2.43%
LEGAL AFFAIRS	19,231,199	906,414	4.71%	525,583	380,831	1.98%
LEGISLATIVE BRANCH	135,061,480	0	0.00%	0	0	0.00%
MILITARY AFFAIRS	6,680,797	291,663	4.37%	0	291,663	4.81%
NAT. CONF/COMM.	32,508	1,365	4.20%	0	1,365	4.20%
NATURAL RESOURCES	36,841,225	1,449,930	3.94%	(24,156)	1,474,086	4.00%
PAROLE COMMISSION	7,956,811	2,180	0.03%	0	2,180	0.03%
PROFESSIONAL REG	75,000	35,000	46.67%	(21,955)	56,955	75.94%
PUBLIC SERVICE COMM	0	0	0.00%	(57,417)	57,417	0.00%
REVENUE	58,782,103	2,876,672	4.89%	(41,699)	2,918,371	4.96%
STATE	61,047,314	1,977,045	3.24%	345,768	1,631,277	2.68%
TRANSPORTATION	0	0	0.00%	(16,757)	16,757	0.00%
VETERANS' AFFAIRS	4,006,716	194,271	4.85%	0	194,271	4.85%
TOTAL	\$11,269,191,957	\$477,757,121	4.24%	\$215,249,794	\$262,507,327	2.33%

Note: The Governor and Cabinet approved reductions totalling \$225 million while deferring action until October 23, 1990 on approximately \$7.5 million of Judicial and Juvenile Justice reductions.

tax increases the Legislature passed this year. Hey, Tax and Budget Reform Commission, the State of Florida needs your help! We must change the way we run the state's budgeting system. Tax reform alone won't do it. Budget reform is not only a good idea, it's critical.

EDUCATION SHOULDERS THE BURDEN OF CUTS:

More than half of the \$477.9 million cuts in general revenue spending comes from education; **Public Schools** - \$180.0 million, **Community Colleges** - \$21.9 million, **State University System** - \$42.9 million and other **educational programs** - \$8.1 million.

On September 17th the Consensus estimating Conference increased lottery revenues \$83.4 million (\$37.9 million nonrecurring) and the Principal State School Trust Fund (dedicated to Public Schools) by \$18 million (\$8.4 million nonrecurring). The Department requested that this increase in revenues be used to mitigate the General Revenue reductions. The Governor and Cabinet approved this request which decreased the net spending cut to the Department of Education to \$159.6 million or an effective reduction of 2.57%.

SELECTED EXAMPLES OF REDUCTIONS:

Public Schools: Florida Education Finance Program (FEFP) - Funded at \$4.456 billion (General Revenue = \$3.948 billion), the FEFP is the primary funding source for public schools in the state. The approved cut was \$70.2 million, reduced from \$135.2 million by the increase in estimated revenues (described above), **\$19.4 million of which is nonrecurring.** Instructional Materials - Funded at \$73.9 million (General Revenue = \$44.3 million), the net reduction was \$3.7 million (8.3%). In addition, \$8.4 million recurring General Revenue was replaced with **\$8.4 million nonrecurring funds.** Student Transportation - Funding for this program was not cut, but \$15 million of recurring general revenue was replaced with nonrecurring lottery revenue.

Community Colleges: Community College Program Fund - Funded at \$570.6 million (General Revenue = \$515.4 million), the Program Fund is the primary funding source for the twenty-eight state community colleges. The approved spending cut was lowered from \$21.9 (4.3%) to \$13.3 million (3.2%) by using \$8.6 million new lottery dollars, **\$3.9 million of which is nonrecurring.**

State University System: Education and General Activities - Funded at \$1.0533 billion (General Revenue = \$753.1 million), this budget entity is the primary funding source for the nine state universities. The General Revenue spending cut of \$31.7 million (4.21%), which would have deleted 244 positions, was reduced to \$19.5 million, with the addition of \$12.2 of new Lottery funds (**approximately \$5.5 million nonrecurring**) and 126 vacant positions.

DANGEROUS POLICY IMPLICATIONS:

The Education budget cuts approved by the Administration Commission include three proposals that TaxWatch believes to be unsound. These are:

- (1) The increased dependence on nonrecurring revenues to fund recurring programs.
- (2) The use of new Lottery revenues that have not been appropriated by the Legislature may be unconstitutional.
- (3) The level of Lottery revenues for 1991-92 are insufficient to support a continuation of the approved 1990-91 spending level.

Nonrecurring Revenues/Recurring Programs

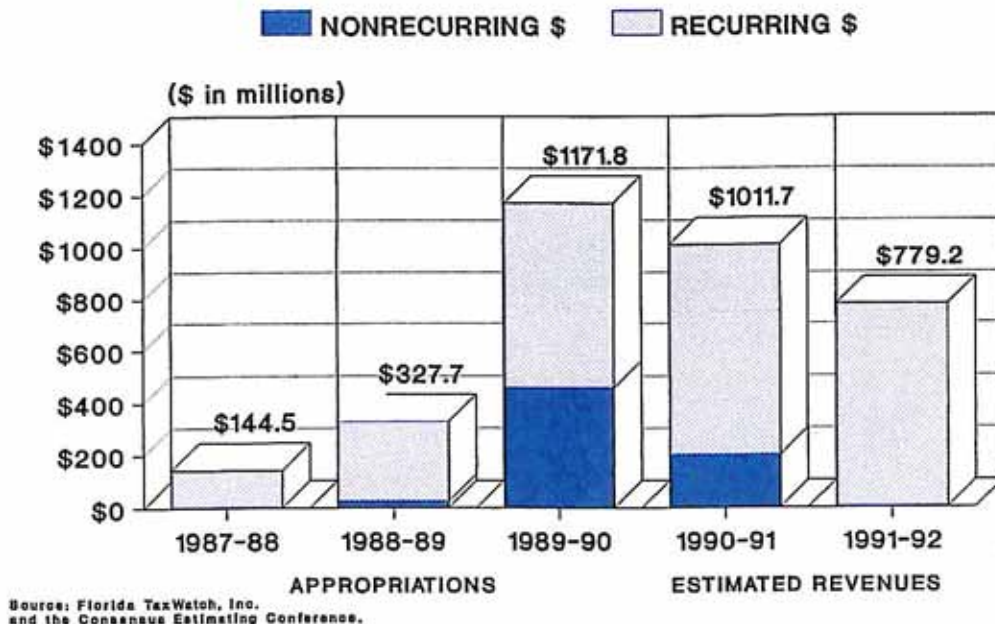
The 1990-91 funding for the Department of Education operations, as appropriated by the Legislature, included more than \$215 million of nonrecurring revenues. The use of nonrecurring revenues for nonrecurring programs is an appropriate use of such funds. However, using nonrecurring revenues for recurring programs is not. The Department reduced its required General Revenue reductions with \$101.4 million of new revenue, of which \$46.3 million was nonrecurring. This will increase the nonrecurring funding of educational programs to more than \$260 million.

An example of the inappropriate use of nonrecurring revenues in recurring programs is the \$19.4 million Lottery funds in the Florida Education Finance Program in Public Schools. Also, the revised spending for Instructional Materials (textbooks) in public schools of \$70.2 million contains \$31 million (44%) nonrecurring funds.

Constitutionality Of Spending Nonappropriated Lottery Revenues

Article X, Section 15, of the Constitution of the State of Florida states that "*Net proceeds derived from the lotteries shall be deposited to a state trust fund, to be designated The State Education Lotteries Trust Fund, to be appropriated by the Legislature.*" Notwithstanding the provisions of S. 216.181(7), Florida Statutes, which gives the Governor the power to increase trust fund use over the amount appropriated in an emergency situation, TaxWatch believes that the Legislature cannot abrogate its' Constitutional responsibility of appropriating all Lottery revenues.

DECLINING LOTTERY REVENUES JEOPARDIZE EDUCATION FUNDING



1991-92 Lottery Funds Less Than 1990-91 Spending

The Governor and Cabinet approved the use of all 1990-91 Lottery revenues, including the unappropriated additional revenues of \$83.4 million, to support the 1990-91 level of education spending. Revised 1990-91 Lottery spending on operations will total \$1,006.7 million, however, Lottery revenues for 1991-92 are projected to be only \$779.2 million. Maintaining the current spending level will create a \$227.5 million lottery revenue deficit in 1991-92. The following chart clearly shows the inability of 1991-92 estimated revenues to support the 1990-91 level of spending.



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