

SMALL SURPLUS ESTIMATED FOR THE NEXT STATE BUDGET

HOWEVER, BUDGET SHORTFALLS FORECAST IN THE FOLLOWING TWO YEARS

It appears the 2020 Florida Legislature will have a little money left over after funding a continuation budget for the next fiscal year, but lawmakers need to be careful about spending it. State economists estimate that there will be a General Revenue (GR) budget surplus of \$289.3 after funding the base budget plus “critical needs” and “high priority needs”—a conservative continuation budget.

But a “structural imbalance” in Florida’s budgeting process still exists—current recurring revenues will not keep pace with recurring expenditures. Even if the next session produces only the budget assumed in the new *Long-Range Financial Outlook*, budget shortfalls are forecast in each of the following two years, totaling \$486.0 million and \$365.7 million, respectively. Any new initiatives or funding of existing programs above current levels will cause those shortfalls to grow.

This also assumes the Legislature will transfer \$213.4 million from trust funds¹—money earmarked by law for specific uses—into the General Revenue (GR) Fund. These sweeps account for most of the projected surplus. The *Outlook* also assumes the Legislature will pass tax cuts with a first-year impact of \$98.3 million.² The forecast also assumes lawmakers will leave cash reserves (unobligated GR) of \$1 billion. This should probably be considered the bare minimum reserve, since the past nine budgets have left (sometimes only slightly) larger ones. Any reserve more than \$1 billion will also reduce the surplus.

The new *Long-Range Financial Outlook*, recently adopted by the Joint Legislative Budget Commission, is a required annual report comparing estimated revenues and expenditures to give the Legislature a sense of the state’s budget position going into session and whether lawmakers can expect a budget shortfall or surplus (for more description of the *Outlook*, see Appendix). It is a valuable tool that also looks ahead, giving a sense of what past budgetary actions mean for the state’s financial outlook over the next three years.

This is the fourth year in a row that the *Outlook* forecasts a small surplus for the upcoming budget year followed by two years of shortfalls. The Legislature has avoided these shortfalls—as it is required to do—but the fixes have been generally short-term in nature. This includes the use of trust fund sweeps to provide sufficient GR. So, the specter of future shortfalls persists.

¹ Historically, the Outlook has used a three-year average to estimate the amount of trust fund sweeps. This year, it used a five-year average and adjusted for a \$128.9 million shift from GR to the State Transportation Trust Fund passed by the 2019 Legislature. This resulted in a much smaller sweep estimate. Last year’s estimate was \$392.5 million.

² Based on the average of the tax cuts passed during the last three years. This includes \$43.8 million in one-time tax cuts (such as sales tax holidays) and \$105.8 million in recurring cuts. It assumes—as has been recent legislative practice—that the recurring cuts will become effective mid-fiscal year, reducing the first-year impact to \$54.5 million.

Largest FY2020-21 General Revenue Spending Increases Included in the *Outlook*

	million \$
State Match for Federal Emergency Management Disaster Funding	\$280.9
State Employees - Pay issues, health insurance, and retirement benefits	\$183.1
Medicaid - Increased caseloads, waivers and provider payments	\$154.6
Universities - Workload increases and restoring non-recurring funding	\$133.3
K-12 Education (FEFP) - Enrollment growth and a 2.02% per-student funding increase	\$112.8
Other Agricultural and Environmental Programs	\$99.6
Water and Land Conservation - Everglades, Florida Forever, lake restoration, etc	\$99.1
State Buildings - Repair, maintenance, and capital Improvements	\$81.7
Kidcare - Enrollment growth and reduced federal funding (FMAP)	\$81.3
Job Growth Grant Fund	\$78.3
Corrections - Inmate Health Services	\$66.3
Children & Family Services	\$64.2
Higher Education Student Financial Aid	\$48.3
Local Water Projects	\$45.2
Other Criminal Justice & Courts	\$35.2
Dept. of State - Cultural, Historic Preservation and Library Grants	\$34.4
Herbert Hoover Dike Rehabilitation	\$33.3
Fiscally Constrained Counties - Reimburse property tax losses from constitutional amendments	\$31.4
Economic Development Incentive Programs	\$30.5

HIGHLIGHTS

- State economists estimate that the 2020 Legislature will have a GR budget surplus of \$289.3 after funding the base budget plus “critical needs” and “high priority needs”—a conservative continuation budget. This assumes that lawmakers will sweep \$213.4 million from trust funds and pass \$98.3 million in tax cuts.
- However, a “structural imbalance” in Florida’s budgeting process still exists. Even if the 2020 Legislature funds only the conservative continuation budget assumed in the Outlook, budget shortfalls are forecast in each of the following two years, totaling \$486.0 million and \$365.7 million, respectively. Any new initiatives or funding of existing programs above current levels will cause those shortfalls to grow.
- “Critical needs” will require an additional \$696.6 million over the recurring GR base budget in FY2020-21 but “high priority needs” will require an additional \$1.055 billion.
- The “critical needs” estimate is (relatively) low because there are large surpluses in the two major school funding trust funds—the Educational Enhancement Trust Fund and the State School Trust Fund. This will allow \$259.8 million from these trust funds to be used in the FEFP in lieu of GR. In addition, school property tax revenue will increase by \$246.2 million.
- These two factors result in the funding of more than 22,000 new students and increasing per-student funding by 2.02 percent—with a total cost of \$614.2 million—to require only \$108.2 million in GR.

- The largest critical need in the *Outlook* is \$280.9 million for the state match of federal emergency management disaster funding for hurricane recovery. This is followed by \$183.1 million for state employee salary and benefits issues, including increased costs for health insurance and retirement. Increased Medicaid cost of \$154.6 million is the third largest expense.
- Two major revenue developments had significant impacts on the *Outlook*. In the absence of a gaming compact with the Seminole Tribe, revenue sharing with the state stopped in April 2019, which will cost the state \$350 million annually.
- Actual GR collections for FY2018-19 came in \$507.2 million over estimate. Most of that added money (\$385 million, 76 percent) was from corporate income tax (CIT) collections, which, along with another \$158 million in already collected CITs, will be refunded to taxpayers this Spring. This windfall in FY2018-19, followed by its refund in FY2019-20, creates a rarity in Florida—total GR collections declining from one year to the next.
- The *Outlook* assumes a GR reserve (unobligated cash) of only \$1.0 billion. The Legislature has left a larger reserve than that in each of the last nine years. Reserves have exceeded \$1.6 billion twice, but most years they have been less than \$1.2 billion. Any reserve larger than \$1.0 billion would reduce the surplus.
- Florida's economy is exhibiting solid growth. The strength in tourism is largely offsetting drags on the economy such as construction. But there are significant risks to the economic forecast, including events reducing tourism and escalating trade tensions. The *Outlook* does not anticipate a recession but not all economists agree. The *Outlook* does concede that there are several signs that indicate "there is a decided risk that an economic downturn will materialize in the near term that is not anticipated in the current forecast."

BUDGET OUTLOOK IS IMPROVED FROM LAST YEAR

Last year's *Outlook* estimated a \$47.8 billion budget shortfall for FY2020-21. The new estimate of a \$289.3 million surplus is evidence that there are some positive revenue and expenditures developments in FY2019-20; however, despite these developments, the forecast for FY2021-22 is a bit worse than last year's estimate—the expected shortfall grew from \$456.7 million to \$486.0 million.

It is now estimated the Legislature will have \$36.054 billion in GR available for the next budget. This is slightly less than anticipated in the previous *Outlook*, despite \$229.5 million more in unspent funds from the current year that carryforward than previously estimate. The estimate of revenue collections in the current year has been reduced. The last GR Estimating Conference, which produced the revenue estimates used in the *Outlook*, reduced the estimates of General Revenue for FY2019-20 and FY2020-21 by \$867.7 million; however, actual GR collections for the fiscal year that ended on June 30 (FY2018-19) came in \$507.2 million over the last estimate and these are collections that were not anticipated.

Most of that added money (\$385 million, 76 percent) is from corporate income tax (CIT) collections, which, along with another \$158 million in already collected CITs, will be refunded to taxpayers this Spring.³ This windfall in FY2018-19, followed by its refund in FY2019-20, creates a rarity in Florida—total GR collections declining from one year to the next. FY2019-20 GR collections were \$470 million less than FY2018-19. Collections are now expected to grow by \$1.4 billion (4.3 percent) in FY2020-21.

The other big contributor to the revenue decline is the loss of all Indian Gaming Revenue. Due to the failure of the state to enter into a new compact with the Seminole Tribe, the Tribe ceased revenue sharing with the state after making its April 2019 payment. This reduces GR in FY2019-20 and FY2020-21 by a total of \$683.8 million. Florida will continue to lose approximately \$350 million annually without a new compact.

So, with these negative revenue developments, how did next year's budget outlook improve? The new estimated expenditures for next year are \$614.5 million more than the current year, but \$431.1 million less than the estimate for next year that was made last year. The estimate of the recurring budget base increased by \$128.4 million, but the cost of the critical and high priority needs was reduced by \$559.5 million.

The biggest development reducing the need for additional GR spending involves the Florida Education Finance Program (FEFP) used to fund K-12 Education. It uses a mix of state funds and local school property taxes. The biggest portion of that is the Required Local Effort (RLE) districts must levy to participate in the FEFP. After the Legislature held the total dollar amount of RLE constant in 2016 and 2017—using an increase in state funds—the *Outlook* assumes the Legislature will do as it did the last two years, allow RLE to grow by the value of new construction. It also assumes the discretionary millage rate will be the same (0.748), allowing it to reap the added tax collections on all property value increases.

In addition, there are large surpluses in the two major school funding trust funds—the Educational Enhancement Trust Fund and the State School Trust Fund. This will allow \$259.8 million from these trust funds to be used in the FEFP in lieu of GR.

These two factors result in the funding of more than 22,000 new students and increasing per-student funding by 2.02 percent—with a total cost of \$614.2 million—to require only \$108.2 million in GR.

³ The federal Tax Cuts and Jobs Act of 2017 significantly expanded the U.S. corporate income tax base to partially offset cuts in the tax rate. Since Florida piggybacks with the federal CIT code, the federal changes increased the state's CIT base as well, and since our tax rate was not changing, Florida corporations were facing significant tax increases. Because the magnitude of that increase was not known, the Legislature passed bills in 2018 and 2019, supported by Florida TaxWatch, to require a refund of excess collections. Excess collections are any net revenues that exceed the estimate made in February 2018 by more than seven percent. There will also be a reduction in the CIT rate from 5.5 percent to 4.46 percent in an effort to make the changes revenue neutral.

Budget Outlook - FY2020-21 through FY2022-23

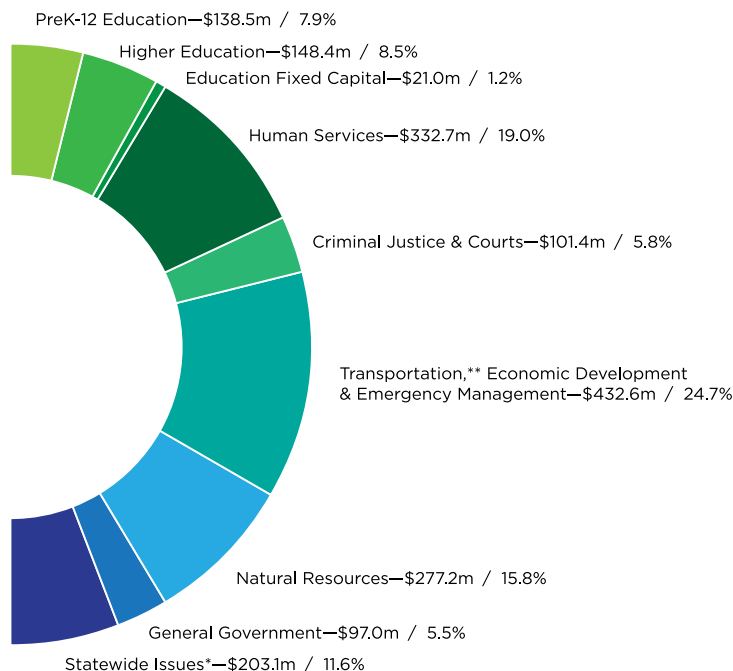
General Revenue - \$ in millions

		FY20-21	FY20-21	FY22-23
REVENUES				
Unspent GR from Prior Year		\$1,452.9	\$1,289.3	\$1,000.0
Estimated Revenues		\$34,363.3	\$35,712.3	\$37,074.5
BP Settlement		\$26.7	\$26.7	\$26.7
Non-Operating Funds and Transfers		\$95.7	\$95.5	\$95.2
Tax Cuts (see note)		-\$98.3	-\$204.1	-\$309.9
Trust Fund Sweeps		\$213.4	\$213.4	\$213.4
Total GR Available for Appropriation		\$36,053.7	\$37,133.1	\$38,099.9
EXPENDITURES				
Base Budget		\$32,914.7	\$33,899.7	\$35,383.9
Increase - Critical Needs		\$696.6	\$1,353.9	\$1,008.7
Increase - High Priority Needs		\$1055.3	\$1,060.8	\$1,002.0
Transfer - Budget Stabilization Fund		\$97.8		\$71.0
Transfer - Lawton Chiles Endowment			\$304.7	
Total Estimated Expenditures		\$34,764.4	\$36,619.1	\$37,465.6
Cash Reserves		\$1,000.0	\$1,000.0	\$1,000.0
Surplus/(Shortfall)		\$289.3	-\$486.0	-\$365.7

Note: Assumes the same amount of tax cuts are adopted each year (\$149.6 million annualized, \$98.3 million in first year). The annualization and recurring portion of the cuts compounds the amount in subsequent years.
Source: Florida TaxWatch from data in the 2019 Long Range Financial Outlook

Critical and High Priority Needs by Program Area

FY2020-21 only



* Includes state employee salary and benefit increases, capital improvements, statewide technology issues, etc.

** Transportation is funded entirely by trust funds, so the Outlook includes no additional costs for transportation.

WHAT ARE THE \$1.752 BILLION IN ESTIMATED GR NEEDS FOR FY2020-21?

This detailing of the \$696.6 million in Critical Needs and \$1.055 billion in High Priority Needs focuses on General Revenue. Many of these issues will require additional trust fund revenue as well.

PreK-12 Education (Total Need – \$138.6 million)

Critical Needs (\$112.8 million) – This year marks a change in the way a significant funding need in K-12 Education is categorized. Historically, the *Outlook* has considered the GR needed to fund enrollment growth (at the current per-student funding amount) a Critical Need and any increase to the per-student funding to be a High Priority Need. This year, both are considered Critical Needs. **Enrollment growth of 22,415 (0.8 percent) and increasing per-student funding for all students by 2.02 percent** (the average of the last three years) will require \$614.2 million in additional funding.

However, the *Outlook* makes two assumptions that will reduce the need to use GR for this additional education funding. It is estimated there will be enough unspent revenue in two education trust funds⁴ to reduce the need for GR by \$259.8 million. It is also assumed the Legislature will adopt the rolled-back school property tax millage rate for RLE,⁵ meaning there will be new revenue from new construction. This will result in an increase of \$159.1 million in local school property tax revenue for RLE. Additionally, it is assumed the Non-Voted Discretionary Millage rate (levied by all districts) will remain at 0.748 mills, producing an additional \$87.2 million from all increasing property values. The result is that only \$108.2 million (17.6 percent) of the \$614.2 million needed to fund enrollment growth and increase per-student spending by 2.02 percent will need to come from GR.

The other Critical Need is \$4.8 million to fund 1,799 more students in the **Voluntary Pre-Kindergarten Program** (at the current per-student level).

High Priority Needs (\$25.8 million) – With the cost of increasing per-student spending now considered a Critical Need, the only High Priority Needs in the *Outlook* are an increase of \$24.9 million for the **Gardiner Scholarship Program** and a \$0.9 million increase for the operations of the **Florida School for the Deaf and Blind**.

Higher Education (Total Need – \$148.4 million)

Critical Needs (\$-48.8 million) – An additional \$23.8 million will be needed to fund more eligible students for the **Bright Futures and the Children and Spouses of Deceased/ Disabled Veterans scholarship programs**. The Educational Enhancement Trust Fund (Lottery) will provide all \$23.1 million needed for Bright Futures, the \$0.7 for the veterans scholarships will come from GR.

In addition, growth in lottery revenues provides an additional \$49.5 million from the Educational Enhancement Trust Fund to be used in higher education instead of GR. This reduces the total cost of the Critical Needs.

⁴ The Educational Enhancement Trust Fund (funded by the lottery and slot machines) and the State School Trust Fund (funded by unclaimed property).

⁵ Required Local Effort is the amount of property taxes school districts must levy in order to participate in the state's school funding formula—the Florida Education Finance Program. The Legislature sets the amount of RLE—currently \$7.9 billion—in the General Appropriations Act each year, although it is not counted as a state appropriation. School districts may also levy a non-voted local discretionary millage of 0.748 mills, that produces an additional \$1.5 billion.

High Priority Needs (\$197.2 million) – Workload increases are included for universities (\$132.8 million), colleges (\$9.4 million), and workforce education (\$6.2 million). These increases are the three-year average increase, not including member projects. Another \$48.3 million is included for increased funding for student **financial assistance programs**, most of which (\$40.3 million) goes to Florida Student Access Grants.

Another \$0.5 million is provided to restore a nonrecurring appropriation for **Workforce Development** programs at school district technical centers using a statewide equity-based funding model.

Education Capital Outlay (Total Need – \$21.0 million)

High Priority Needs (\$21.0 million) – Public Education Capital Outlay (PECO) funding has historically come from a mix of bonding and gross receipts tax collections in the PECO Trust Fund, plus supplemental GR and EETF funds; however, since the Legislature has authorized bonding for PECO only once in the last nine years, the *Outlook* assumes GR will be used to maintain current spending levels. To maintain the three-year average (excluding any member projects), \$21.0 million in GR would be needed. This would be in addition to the \$353.1 million available in the PECO fund for **construction, renovation, maintenance and repair of educational facilities**.

Health & Human Services (Total Need – \$332.7 million)

Critical Needs (\$190.0 million) – Medicaid is a \$29 billion federal and state program, the largest single program in the state budget, accounting for 31.1 percent of the state budget. The program serves 3.8 million Floridians. After **Medicaid enrollment** declined in three consecutive years, the number of beneficiaries is expected to start rising again in FY2020-21. An additional 38,000 cases are expected next year and the outlook projects growth of just under one percent in each of the next three years. Total program expenditures are expected to increase by \$915 million over the base budget next year. Medicaid is funded through GR, various state trust funds and federal funds. The GR portion of this increase is \$114.5 million. A slight increase in the Federal Medical Assistance Percentage (FMAP) will temper the need for more GR a bit. Still, Florida's GR spending for Medicaid is expected to grow by almost \$1 billion in recurring spending over the next three years.

In contrast to Medicaid, enrollment in Florida's **Kidcare program** is increasing significantly, rising from 202,954 in FY2016-17 to 303,421 in FY2019-20—growth of 49.5 percent. Another 21,778 children are expected to be added next year and enrollment will reach 362,194 by FY2022-23. Couple this growth with a declining FMAP and the result is increasing costs for Florida. The *Outlook* includes an additional \$81.3 million in GR for Kidcare.

An expected \$5.8 million decrease in GR needed for the **Temporary Assistance for Needy Families (TANF)** program will reduce the total critical needs in Health & Human Services.

High Priority Needs (\$142.7 million) – In Medicaid, the *Outlook* includes \$40.1 million **for additional waiver slots for the elderly and provider rate increases**.

Increases in GR funding for the following agency programs are also provided:

- **Children and Families** (\$64.2 million) – This includes increases for adoption subsidies, community-based care lead agencies, child abuse investigations by sheriffs, foster care, homeless coalitions, claims bills, domestic violence prevention and services, child welfare legal services, and mental health and substance abuse initiatives.
- **Health** (\$1.6 million) – Funding increases are provided for Early Steps, biomedical research, newborn screening, HIV/AIDS programs, epidemiology, lab maintenance, and the Office of Medical Marijuana Use.
- **Persons with Disabilities** (\$22.4 million) – These dollars are for reducing the waitlist for the developmental disability waiver, supported employee and internship programs, and Medicaid Waiver provider rate increases. A risk to the *Outlook's* forecast is a \$39.4 million GR deficit in the Home and Community Based Service category. This could require additional funding as the corrective action plan furnished to the Legislature by the agency did not solve the problem.
- **Veterans Affairs** (\$1.3 million) – Increases are provided for the Entrepreneurship Program, the Veterans Training Grants Program, and veterans' home equipment. Also included are initial staffing costs for two new veterans' nursing homes. The \$10 million needed will come from trust funds.
- **Elder Affairs** (\$5.8 million) – Additional funding is included for reducing the Community Care for the elderly waitlist, Alzheimer's disease respite services, Public Guardianship services, and Aging Resource Centers.

The *Outlook* also includes \$7.3 million in GR (along with \$44.6 million in trust funds) for **human services information technology costs**. This includes the completion of the Agency for Persons with Disabilities' Client Data Management System, the Department of Veterans' Affairs computer replacement program and security enhancements, the Florida Medicaid Management Information System transition, Substance Abuse and Mental Health technology, continuation of the Enterprise Client Information and Tracking System (eCIRTS) Project in the Department of Elder Affairs, and cloud conversion for the Department of Children and Families' Florida Safe Families Network.

Economic Development and Transportation (Total Need – \$280.9 million)

Critical Needs (\$280.9 million) – One critical needs item is included: \$280.9 million for the **state match for federal FEMA disaster funding** for all open federally declared disasters. This state share of this hurricane recovery funding is expected to total \$673.4 million over the three years covered in the *Outlook*. All damage assessments and claims processing, which can span several years, may not be complete and could increase this match requirement.

The Department of Transportation's work program is funded by the State Transportation Trust Fund—not GR—so transportation system needs are not reflected here.

High Priority Needs (\$151.7 million) – \$108.8 million in GR is included for economic development and workforce programs, including \$78.3 million for the **Job Growth Grant Fund**. The rest would go to traditional economic development programs such as the **Qualified Target Industry Tax Refund**, the **High-Impact Performance Grant**, and the **Brownfield Redevelopment Tax Refund** and **Bonus Refund** programs.

The *Outlook* assumes no new funding for any other economic development programs. This includes **VISIT FLORIDA**, which is scheduled for repeal on October 1, 2020. The House and Senate had agreed to let it sunset on October 1, 2019 but support voiced by the Governor, Florida TaxWatch and many others helped the Legislature to extend the repeal by one year and provide \$50 million in funding.

Funding is also included for the **Department of State’s grant programs—libraries (\$5.5 million), cultural affairs (\$21.6 million), and historic preservation (\$7.3 million)**. This spending has been decreasing since the peak in 2014, despite the funding of many local member projects, which often supplant projects that were approved through the department’s established grant programs.⁶ The Department’s **election priorities** (\$4.1 million) are also included.

Funding is included for maintenance and security enhancement of **National Guard armories** and other military affairs priorities (\$3.2 million).

Criminal Justice & Courts (Total Need – \$101.5 million)

Critical Needs (none) – Florida’s prison population has been declining, falling by 4,667 inmates (4.6 percent) since FY2013-14. After five straight years of falling populations, the number of state prisoners remained flat in FY2019-20. It is expected population will start increasing, but only minimally—0.3 percent over three years; however, the latest population estimates are below the estimate used to fund the current budget, so no prison workload increases are included in the *Outlook*.

High Priority Needs (\$101.6 million) –In corrections, \$28.1 million is included for complying with a federal court order to **test all inmates for Hepatitis C and treat those infected** with a far more effective treatment (but also more expensive) treatment. In addition to the \$30,000 per inmate treatment cost, the number of those infected is also increasing. Also included are increased costs for **pharmaceuticals** (\$8.2 million), and the settlement of lawsuits relating to the accommodations of **inmates with mental health treatment needs** (\$28.8 million) and for **those with disabilities** (\$1.2 million).

There are 167 youths adjudicated to residential commitment programs but waiting for an actual assignment to a residential facility. The average length of time between adjudication and commitment is 33 days and those awaiting commitment must be assigned to secure detention. GR of \$7.0 million is included for **additional residential commitment beds and evidence-based services** for these juveniles. Another \$1.1 million is included for increased community supervision costs.

Other increased costs are included for rehabilitation programs (\$1.2 million), more cameras in corrections facilities (\$1.0 million), motor vehicles (\$2.2 million), and several information technology improvements

⁶ For more information on these and other projects that circumvent proper budgeting practices, see Florida TaxWatch’s Budget Turkey Watch Report.

(\$13 million), including a Sexual Predator database and a Data Transparency project in the Department of Law Enforcement and the Department of Legal Affairs agency-wide technology modernization project.

In recent years, expenditures for **due process and conflict cases** have exceeded appropriations and the Legislature has consistently funded the deficits. The *Outlook* includes an increase of \$3.9 million for these costs. Another \$3.1 million is included to fund the expected growth in costs for the state's five **Criminal Conflict and Civil Regional Counsels**.

In the Judicial Branch, an increase of \$2.6 million is provided for **problem-solving courts**—such as drug, veterans, mental health, and early childhood courts, supported by Florida TaxWatch as a way to reduce recidivism and improve societal outcomes.

Natural Resources (Total Need – \$277.2 million)

Critical Needs – None.

High Priority Needs (\$277.2 million) – Although there are no additional critical needs identified in Natural Resources in the *Outlook*, significant high priority needs are included, highlighting the Legislature's increased environmental funding in recent years. Funding of \$99.1 million GR (along with \$206.8 million in trust funds) is provided for **water and land conservation**. This includes additional GR Florida Forever (\$7.5 million), Everglades restoration projects (\$31.7 million),⁷ land management (\$3.7 million), and St. Johns River/Keystone Heights restoration (\$12.4 million). An additional \$206.8 million from trust funds on these projects is also anticipated.

The Legislature is expected to continue to fund scores of **local water projects**, so the *Outlook* includes \$45.2 million for these. Florida TaxWatch reiterates its recommendation to develop a formal, comprehensive competitive selection process for these projects.⁸

Another \$132.9 million is included for **a myriad of environmental and agricultural programs** including drinking water and wastewater loans, Florida Keys protection, the Herbert Hoover Dike, technical assistance to communities dealing with rising sea levels, payments due from citrus canker eradication litigation, agriculture promotion, citrus research, and Fish & Wildlife Commission programs. Funding is based on the average of the last three years of appropriations.

General Government (Total Need – \$97.0 million)

Critical Needs (\$31.5 million) - State law requires the Legislature to provide money to **fiscally constrained counties** to offset property tax reductions arising from two constitutional amendments. While paid annually, this money is considered non-recurring and is not part of the budget base, so the entire payment is included in Critical Needs. This will cost \$31.4 in the next budget.

A small increase (\$0.1 million) is expected in **Non-Florida Retirement System Pensions and Benefits** (such as for the Florida Natural Guard and disabled justices and judges).

⁷ \$131.2 million in additional trust fund spending on Everglades restoration is assumed.

⁸ Florida TaxWatch, The 2019 Budget Turkey Watch Report: An analysis of the transparency and accountability of the budget process, April 2019.

High Priority Needs (\$65.5 million) – GR of \$26.6 million is included for general repair and maintenance of the **state building pool**, \$34.7 million for replacement of the **Waller Park Plaza** in the Capitol Complex, \$2.4 million for the **replacement of the state’s accounting system (FLAIR)** and \$1.8 million is provided for other general government activities.

Statewide Issues (Total Need – \$203.1 million)

Critical Needs (\$130.2 million) – State contributions for **state employee health insurance** are expected to increase by \$226.7 million next year, which will lead to a mid-fiscal year premium increase for agencies of 7.0 percent. Medical claims are expected to increase by 6.9 percent and pharmacy claims by 10.7 percent. This will outpace 4.3 percent growth in premiums and require \$56.3 million from the General Revenue Fund and \$30.7 million from trust funds to keep the fund solvent. Even greater premium increases are expected to be needed in the next two years. Over the three-year *Outlook* horizon, an additional \$451.3 million (\$266.5 in GR) will be needed to fund state employee health insurance.

The *Outlook* assumes the Legislature will continue providing full funding to amortize any unfunded liability in the **Florida Retirement System**. The state has lowered the expected investment rate of return from 7.75 percent in 2013 to 7.4 percent, which requires an increase in contributions. Further reductions are very possible. Based on a three-year average, the *Outlook* an increase of \$74.2 million in GR and \$11.4 million from trust funds. The 2019 Annual Actuarial Valuation is not yet available, so these numbers could change significantly.

The **Division of Administrative Hearings** handles disputes between the state and others, such as contractors. A reduction of 0.3 percent for operations is projected, based on reduced hearing hours in FY2017-18. Assessments paid by agencies fund DOAH, and these vary. The mix of GR and trust funds used to pay these assessments also varies between agencies. While an additional \$0.4 million in trust fund spending is expected to be needed next year, GR spending for DOAH assessments is expected to decrease by \$0.3 million.

There is not expected to be a deficit during FY2020-21 in the state’s **Risk Management Insurance Program**. This is Florida’s self-insurance fund, which provides workers’ compensation, general liability, federal civil rights, auto liability, off-duty law enforcement vehicle property damage, and property insurance coverage to state agencies, which are assessed premiums. Due largely to hurricane costs, there has been a deficit in the fund. Last session, the Legislature provided \$64 million to close the shortfall and pay hurricane claims. Under current projections, a shortfall will form again in FY2021-22, but no additional funding is needed next year.

High Priority Needs (\$72.9 million) - GR of \$52.5 million is provided for **state employee bonuses and competitive, merit and retention pay adjustments** and \$20.4 million is provided for **critical capital improvements of state buildings**.

CONCLUSION

The *Outlook* is a very useful tool, but it is not meant as a blueprint for the next state budget and its estimate of any surplus or shortfall is debatable. There are many, many factors that impact these forecasts. There will be another round of estimating conferences before the next legislative session begins in March (or soon after it starts) that could significantly change—either up or down—the estimate of available revenue, as well as estimates for budget drivers such as school enrollment and Medicaid caseloads.

There are also significant risks to state's forecasts. The impact of hurricanes and other natural disasters, pending litigation against the state, the possible loss of federal Medicaid funds for hospitals, the potential impact of numerous proposed constitutional amendments, the unfunded obligation for unfinished education capital outlay projects that were funded in prior years are all cited as potential needs for increased expenditures.

The *Outlook* does not anticipate a recession and while the latest economic forecast is slightly weaker in several key respects, Florida's economy is exhibiting solid growth. The strength in tourism is largely offsetting drags on the economy such as construction. Threats to our economy, including events reducing tourism and the potential for a full-scale trade war could negatively impact tax collections. The *Outlook* does concede that there are several signs that indicate “there is a decided risk that an economic downturn will materialize in the near term that is not anticipated in the current forecast.”

The Legislature is to be commended for taking steps to mitigate looming budget shortfalls; however, its work is not done. It is still clear that the 2020 Legislature will have to cut some current spending (or increase revenues) if it wants to fund any new initiatives.

The next budget can be balanced without too much trouble, but changes are needed to avoid future, larger problems. Simply, the problem is that recurring GR spending is growing faster than available recurring GR, and the longer it takes to address the problem, the more expensive corrective action will become.

Florida TaxWatch also urges considerable restraint by lawmakers in requesting local member projects. Despite rules designed to limit and increase the transparency of member projects, the 2018 budget contained approximately 600 member projects worth \$450 million. This brings the three-year total (since the rules were adopted) to more than 1,800 members projects worth \$1.7 billion. Some of these funding for these projects are included in the *Outlook's* high priority needs, but most are not.

The Legislature should reconsider its use of trust fund sweeps to balance the budget. The *Outlook* should also not assume the Legislature will sweep trust funds, for it further legitimizes the practice as an integral part of the budget process, instead of one of the last resorts in tight budget years. Trust fund transfers have their place in budgeting, especially in times of a shortfall, when education and human services (which comprise the majority of general revenue spending) typically bear the brunt of budget cuts; however, care should be taken that the lawfully-created relationship between trust fund revenues and their uses is considered and the impact of the sweeps should be quantified and evaluated.

Florida TaxWatch reiterates its recommendation that if the Legislature wants to sweep a trust fund, it should be required to introduce a separate general bill for each trust fund sweep. Currently, a legislator cannot vote against a trust fund sweep without voting against the entire budget. Like other bills, a staff analysis would be developed that would compare what would be funded with and without the sweep and the associated costs and benefits. The analysis should also address the current tax or fee structure that funds the trust fund and determine if the current levels are appropriate.

APPENDIX

WHAT IS THE LONG-RANGE FINANCIAL OUTLOOK?

The *Long-Range Financial Outlook* is a valuable, constitutionally required budget planning tool that looks ahead three years, comparing estimated revenues and expenditures. This summer's round of state estimating conferences was the basis for the *Outlook*, which is produced annually by the legislative Office of Economic and Demographic Research and the House and Senate Appropriations Committees. The *Outlook* focuses on General Revenue (GR)—the funds that can be spent by the Legislature on anything and that are major source of funding for education, human services and criminal justice. The *Outlook* also forecasts some trust funds that can affect the need for GR spending in certain areas of the budget, such as the Educational Enhancement Trust Fund, which provides lottery and slot machine revenue for education.

The *Outlook* first projects the amount of GR that will be available for the budget. That amount is then compared to the base budget (recurring appropriations in the current budget) plus an estimate of increased spending needed for a “continuation budget.” The difference in projected revenues and expenditures is the projected surplus or shortfall.

The forecasted growth in expenditures is made up of two categories. **Critical Needs** are mandatory increases (based on estimating conferences and other essential items), representing the minimum cost to fund the budget without significant programmatic changes. New initiatives and funding increases above what is required are not included. For example, the cost of funding additional Medicaid enrollees is included as a critical need increases in waiver slots or provider payments are not. Historically, maintaining per-student PreK-12 student funding levels and increased Medicaid costs make up the vast majority of these new “critical needs.”

High Priority Needs are historically funded issues that are typically viewed as “must fund” in normal budget years. These can include the continued funding of programs paid for with non-recurring revenues, as well as non-mandatory increases for recurring programs. These are usually calculated by using the three-year average appropriations for that program. Adding these two categories to the recurring expenditures in the current budget comprises what can be thought of as a continuation budget.

In 2015, the *Outlook* began assuming the Legislature will cut taxes (reducing GR) and sweep trust funds⁹ (increasing GR). These are usually estimated using the average of the previous three years, although the amount of trust fund swifts was done differently this year, resulting in smaller than usual number. These two changes are added to the estimate of available GR. So far, the estimate of trust fund sweeps has been larger than the tax cut estimate, so this has improved the budget outlook in the first year; however, since a portion of the tax cuts is considered recurring, while the sweeps are non-recurring, the impact of the tax cuts compounds over time and it reduces the surplus (or increases the shortfall) by the second or third year of the forecast.

⁹ The Legislature often transfers money from trust funds, which has specified uses, to GR, which may be used for anything. For more information see Florida TaxWatch, Putting the Trust Back in Trust Funds, March 2014 and The Legislature Must Stop Diverting Affordable Housing Funding, April 2019.

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