

## ANALYZING THE GOVERNOR'S FY2018-19 BUDGET AND TAX RECOMMENDATIONS

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**G**overnor Rick Scott recently released his eighth and final budget recommendation. The \$87.375 billion proposed budget will be considered by the 2018 Legislature as it develops the next state budget. The Governor's spending plan for FY2018-19 represents an increase of 2.9 percent (\$2.422 billion) over current year spending. General Revenue (GR) spending of \$32.182 billion would be an increase of 2.1 percent (\$0.673 billion) over the current year. The budget proposes to fund 113,392 state employee positions, 565 more than currently exist. The proposed budget is \$2.648 billion less than was requested by state agencies this fall and funds 1,168 fewer positions than requested.

The budget is viewed by many as ambitious since the state forecasted a very tight budget year and costs due to Hurricane Irma are mounting. This *Budget Watch* highlights what is in the proposal and what it means for Floridians, examines how the Governor was able to balance a budget that includes tax increases and significant funding initiatives, and looks at budget issue conflicts that may arise during the legislative session.

### GOVERNOR'S PROPOSED BUDGET SNAPSHOT

**Total Funding** - \$87.375 billion—\$2.422 billion (2.9 percent) more than current year spending. General Revenue spending would increase by \$673 million (2.1 percent), to \$32.182 billion.

**State Employees** - 113,392 state employee positions, 565 more than currently exist. The Governor is recommending 596 new positions, while eliminating 269 (mostly vacant) positions. There is no across the board pay increase for state employees but the Governor is recommending funding for pay increases for the state's sworn law enforcement offices, juvenile justice detention officers, and Forest Service firefighters.

**Tax Cuts** - \$180 million in state and local tax cuts, \$88.2 million of which is one-time cuts from a 10-day back-to-school sales tax holiday and three one-week hurricane preparedness holidays. There are \$87.8 million in recurring tax relief from a reduction in the cost of driver licenses. The Governor also proposes to provide an 18 percent reduction in some traffic fines if the driver takes a basic driver improvement class (\$4.0 million).

**Reserves** - \$5.1 billion, including \$1.399 billion in unallocated General Revenue (cash) reserves.

**Trust Fund Sweeps** - The Governor proposes to transfer \$168.0 million from trust funds to general revenue, most of it (\$91.8 million) from the local affordable housing trust fund. Twelve other trust funds are swept, ranging from \$500,000 from the (securities) Anti-Fraud TF to \$25.0 million from the Professional Regulation TF.

**Bonding** - The Governor proposes to only issue new bonds for projects in the Department of Transportation work program (up to \$739 million).

**Tuition** - No tuition increase for colleges or universities.

## FY2018-19 Governor's Budget Recommendations

Compared to Current Year (\$ millions)

Department/Agency	General Revenue	Trust Funds	Total	Current Year Total	+ / (-) Current Year	Positions	+ / (-) Current Year
Administered Funds (Statewide)	\$23.998	\$18.808	\$42.81	\$95.58	\$(52.77)	-	0.00
Agriculture & Consumer Services	\$141.430	\$1,563.245	\$1,704.67	\$1,757.25	\$(52.57)	3,653.25	0.00
Business & Professional Regulation	\$1.487	\$152.093	\$153.58	\$153.54	\$0.04	1,615.25	-2.00
Children & Families	\$1,757.367	\$1,418.725	\$3,176.09	\$3,173.99	\$2.10	12,032.50	57.00
Citrus	\$5.694	\$25.440	\$31.13	\$33.13	\$(2.00)	39.00	-2.00
Commission on Offender Review	\$10.354	\$0.118	\$10.47	\$10.67	\$(0.20)	132.00	0.00
Corrections	\$2,566.317	\$77.330	\$2,643.65	\$2,487.43	\$156.22	24,746.00	508.00
Economic Opportunity	\$163.333	\$1,037.926	\$1,201.26	\$1,096.96	\$104.30	1,467.50	-7.50
Education	\$16,731.450	\$8,347.987	\$25,079.44	\$24,925.28	\$154.16	2,310.75	-5.00
Elder Affairs	\$147.869	\$172.456	\$320.33	\$314.15	\$6.17	406.50	-15.00
Environmental Protection	\$247.309	\$1,455.507	\$1,702.82	\$1,475.49	\$227.32	2,878.50	-21.00
Financial Services	\$21.517	\$352.593	\$374.11	\$373.33	\$0.78	2,582.50	-25.00
Fish & Wildlife Conservation	\$35.350	\$354.372	\$389.72	\$372.43	\$17.29	2,143.50	25.00
Governor's Office	\$109.215	\$1,316.226	\$1,425.44	\$420.23	\$1,005.22	431.00	0.00
Health	\$509.205	\$2,454.667	\$2,963.87	\$2,924.09	\$39.78	13,746.82	0.00
Health Care Administration	\$6,761.807	\$22,015.654	\$28,777.46	\$28,103.61	\$673.85	1,536.50	3.00
Highway Safety & Motor Vehicles	\$0.000	\$487.025	\$487.02	\$482.96	\$4.06	4,374.00	0.00
Justice Administration	\$767.222	\$141.048	\$908.27	\$903.36	\$4.91	10,431.78	48.28
Juvenile Justice	\$427.660	\$165.783	\$593.44	\$570.32	\$23.12	3,272.50	3.00
Law Enforcement	\$107.689	\$189.670	\$297.36	\$295.05	\$2.31	1,900.00	10.00
Legal Affairs	\$60.238	\$242.028	\$302.27	\$298.73	\$3.54	1,401.50	5.00
Legislature	\$206.342	\$2.535	\$208.88	\$208.33	\$0.55	-	0.00
Lottery	\$0.000	\$176.055	\$176.06	\$168.01	\$8.05	418.50	0.00
Management Services	\$42.351	\$642.104	\$684.45	\$683.60	\$0.86	1,282.50	-2.00
Military Affairs	\$25.585	\$41.448	\$67.03	\$72.82	\$(5.79)	451.00	-2.00
Persons with Disabilities	\$562.262	\$877.000	\$1,439.26	\$1,288.69	\$150.57	2,702.50	0.00
Public Service Commission	\$0.000	\$24.897	\$24.90	\$25.00	\$(0.10)	265.00	-2.00
Revenue	\$221.164	\$367.229	\$588.39	\$580.15	\$8.25	5,024.00	-34.00
State	\$74.937	\$34.800	\$109.74	\$118.33	\$(8.60)	413.00	5.00
State Courts	\$441.824	\$93.318	\$535.14	\$536.25	\$(1.11)	4,262.00	-42.50
Transportation	\$0.000	\$10,842.549	\$10,842.55	\$10,853.76	\$(11.21)	6,209.00	-90.00
Veterans Affairs	\$10.582	\$102.703	\$113.29	\$150.63	\$(37.35)	1,263.50	151.00
<b>Totals</b>	<b>\$32,181.560</b>	<b>\$55,193.336</b>	<b>\$87,374.90</b>	<b>\$84,953.13</b>	<b>\$2,421.76</b>	<b>113,392.35</b>	<b>565.28</b>

## PROPOSED TAX AND FEE REDUCTIONS

The Governor is recommending \$180 million<sup>1</sup> in state and local tax relief. He is recommending one-time relief (tax holidays) of \$88.2 million. He is proposing to reduce the cost of driver licenses, providing \$87.8 million in recurring tax cuts. The Governor is also recommending an 18 reduction in some traffic fines for people who attend a driver improvement school. He estimates this will save drivers \$4.0 million.

**Back to School Sales Tax Holiday** - A ten-day period (August 3-12, 2018) when clothing priced at \$60 or less, school supplies priced at \$15 or less, and computers and accessories purchased for noncommercial use priced at \$1,000 or of less would be exempt from sales taxes. This would provide \$73.4 million in tax savings, including \$14.9 million in local sales taxes.

**Disaster Preparedness Sales Tax Holidays** – Three one-week periods (in April, May, and June) when flashlights, batteries, coolers and reusable ice, portable radios, generators, fuel tanks, first aid kits, tarps, and tie-down kits would be exempt from sales taxes. This would provide \$14.8 million in tax savings, including \$3.1 million in local sales taxes.

**Driver Licenses** – Reducing the fee for an original driver license from \$48 to \$27, reducing driver license renewal fees from \$48 to \$20, and reducing commercial driver licenses from \$75 to \$67. This would provide \$87.8 million in tax savings. This does not impact local taxes.

**Traffic Fines** - The Governor is also recommending an 18 percent reduction in some traffic fines for people who attend a driver improvement school. He estimates this will save drivers \$4.0 million annually. This discount was available to Florida traffic violators before, but was repealed in 2009.

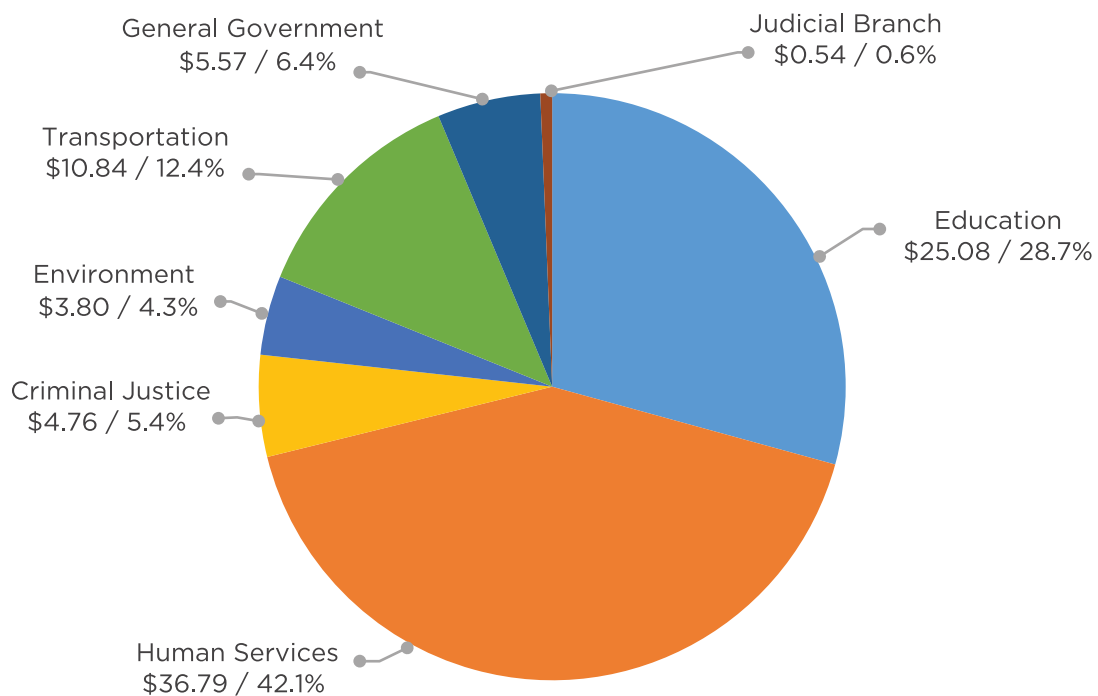
<sup>1</sup> The Governor's tax cut recommendation would have a first-year impact of -158.5 million on the state budget and a recurring -\$92.0 million in succeeding years. The Governor arrives at his -\$180 million total by adding the first-year non-recurring state and local cuts (-\$88.2 million) to the recurring value of the other cuts (-\$92.0 million), including the traffic citation reduction.

### FY2018-19 Governor's Recommended Tax Cuts (\$ in millions)

Department/Agency	General Revenue		Local		Total	
	First Year	Recurring	First Year	Recurring	First Year	Recurring
<b>Taxes</b>						
10 Day Back-to-School Sales Tax Holiday	\$58.50	\$-	\$14.90	\$-	\$73.40	\$-
3 One-Week Hurricane Preparedness Holidays	\$11.70	\$-	\$3.10	\$-	\$14.80	\$-
Driver's License	\$83.20	\$86.90	\$-	\$-	\$83.20	\$86.90
Commercial Driver's License	\$0.90	\$0.90	\$-	\$-	\$0.90	\$0.90
<b>Fees</b>						
Traffic Fine Discount (improvement class	\$4.20	\$4.20	\$-	\$-	\$4.20	\$4.20
<b>Total Tax Relief</b>	<b>\$295.10</b>	<b>\$420.20</b>	<b>\$49.20</b>	<b>\$52.40</b>	<b>\$344.20</b>	<b>\$472.60</b>
<i>Note: The sales tax holidays have an insignificant (less than \$50,000) impact on trust fund revenue.</i>						

General Revenue Fund Outlook			
Impact of Governor's Recommendations (\$ millions)			
Funds Available 2018-19	Recurring	Non-recurring	Total
Current Reserves	\$-	\$1,497.90	\$1,497.90
Estimated revenues	\$31,925.20	\$276.20	\$32,201.40
BP Settlement Payment	\$26.70	\$-	
Hurricane Reimbursements		\$398.10	
Reversions and Other Adjustments	\$(128.20)	\$226.10	\$97.90
Budget Stabilization Fund	\$-	\$(68.20)	\$(68.20)
<b>Total GR Available for 2018-19</b>	<b>\$31,823.70</b>	<b>\$2,330.10</b>	<b>\$34,153.80</b>
<b>Governor's Recommendations</b>			
Tax & Fee Relief	\$(92.00)	\$(66.50)	\$(158.50)
Trust Fund Sweeps	\$-	\$160.80	\$160.80
Appropriations	\$(31,475.60)	\$(706.20)	\$(32,181.80)
Hurricane Costs		\$(575.60)	\$(575.60)
<b>New GR Reserves</b>	<b>\$256.10</b>	<b>\$1,142.60</b>	<b>\$1,398.70</b>

### Governor's Budget - Appropriations by Program Area \$ billions



## EDUCATION

**K-12 Education** –Recommended total funding for the Florida Education Finance Program (FEFP) is \$21.414 billion (\$11.907 billion in state funding), \$769.6 million (3.7 percent) more than the current year. Per-student spending of \$7,497 would be \$200 per student more (2.7 percent) than the current year. Local taxpayers will pay for most of this funding increase—Required Local Effort (RLE) and discretionary property taxes would rise by \$534.3 million (6.0 percent), reaching \$9.507 billion. The state contribution will increase by only \$235.3 million (2.0 percent). This reverses a two-year trend that saw the Legislature reduce the school property tax millage rate and fund most of the FEFP increase with state dollars. Although the Governor is proposing to keep the current millage rate, increasing property values will mean higher school property tax bills. The Legislature sets the amount of RLE in the budget, but it is not considered a state appropriation and does not add to the budget's bottom line. More than 27,000 new students expected in Florida public schools for next year will cost \$209.3 million at the Governor's recommended funding level.

FEFP categories that would receive significant funding boosts include the sparsity supplement for small rural schools (\$58.1 million, 10.0 percent increase), Safe Schools (\$74.5 million, 15.5 percent increase), and the Teachers Classroom Supply Assistance Program (\$63.2 million, 39.6 percent increase). The Classroom Supply funding will provide \$350 per teacher—a \$100 increase—to purchase supplies.

The Governor recommends continuing funding (at current levels) for the new, controversial programs enacted by the 2017 Legislature, including Schools of Hope and the Best and Brightest Teacher and Principal program.

**Higher Education** - Florida Colleges are funded at \$1.243 billion, a \$31.9 million (2.6 percent) increase over the current year. This includes \$120 million for performance funding and \$14.0 million to be allocated based on students earning industry certifications in specified high-demand areas. The Governor's budget would restore \$30 million in cuts made to the college system last year. Universities would receive \$4.949 billion, a very slight \$3.0 million decrease. This includes \$670.6 million in performance funding, \$30 million of which is new money. The state would provide \$260.0 million and universities would provide \$290 million by redirecting funding from their base budgets. Another \$120.6 million in performance funding would come from not funding the World Class Faculty and Scholar Program and the Professional and Graduate Degree Excellence Program. The Governor does not propose funding for any of the \$75 million in new initiatives requested by the Board of Governors, which included \$40 million to hire more university research personnel. Funding is provided to maintain student financial aid programs, \$26.2 million is added for an estimated increase in eligible students. No tuition increase is recommended.

**Early Learning** – The Office of Early Learning, which runs the state's prekindergarten programs would receive \$1.093 billion, a \$31.3 million increase. This would provide the Voluntary Pre-Kindergarten program a \$50 per student increase (\$43 per student in the summer program). The Governor's budget also includes \$7.0 million in federal funds to decrease the waitlist for Florida's school readiness program, serving 1200 additional children.

**Education Fixed Capital Outlay** – In addition to \$1.3 billion in required debt service, the Governor recommends \$335.2 million billion for education facilities. This includes \$50.0 million

each for traditional public schools, charter schools, universities and colleges for maintenance, repair and renovation. Five small counties would receive \$48.9 million for public school construction projects. Colleges and universities would both get \$34.4 million for construction projects, for which the Governor would require a 1 to 1 match from private sources. Projects that have already received funding from the state and can be completed in FY 2018-19 have priority for funding. The universities' Board of Governors and the State College System requested \$123.4 million (no match requirement) for these projects.

## HEALTH AND HUMAN SERVICES

**Medicaid/CHIP** – The Governor recommends \$28.7 billion for the Agency for Health Care Administration, which runs the state's Medicaid program. This is \$673.9 million more than the current year but \$27.9 million less than was requested by the agency. Medicaid funding would increase by \$600.0 million. The Governor's budget includes \$1.5 billion for the Low Income Pool (LIP), which reimburses providers for indigent care, contingent on hospitals providing \$578.3 million to draw down \$930.1 million in federal funds. There is no state money committed. The Governor includes level funding of \$309.9 million for the Regular Disproportionate Share hospital funding program, although federal funding reductions are expected. The Governor also continues \$246.0 million in medical school faculty payments for Medicaid services, which was funded last year by the Legislature with non-recurring funds. KidCare--the state's Children's Health Insurance Program (CHIP)--would receive a \$47.7 million increase to fund increased enrollment.

**Persons with Disabilities** –The Agency for Persons with Disabilities would receive a funding

increase of \$150.6 million (11.7 percent). The budget would add \$18.2 million to provide home and community based services to 900 persons on the iBudget Waiver waiting list and \$1.0 million to provide employment services to people on the Developmental Disabilities Waiver waiting list.

**Children and Families** – The Governor recommends \$198 million (a \$2 million increase) for maintenance adoption subsidies which provide funding for the families of children who are adopted from foster care to receive the services they need. This will provide critical post adoption services for more than 37,000 children. The budget provides \$10.0 million for an additional 130 Child Protective Investigators and Florida Abuse Hotline Counselor positions as well \$57.7 million for counties where local sheriff's offices conduct child protective investigator services. This includes the outsourcing of 12 positions to the Walton County Sheriff's Office, the seventh county to take on these investigations. An increase of \$21.7 million is included for enhancing mental health and substance abuse services, as has been recommended by Florida TaxWatch.<sup>2</sup>

**Elder Affairs** – The Governor is recommending \$3.0 million in new funding to enroll 264 additional individuals into the Alzheimer's Disease Initiative program, \$5.0 million to enroll 607 additional individuals into the Community Care for the Elderly Program, and \$1.0 million to provide services to an additional 268 seniors through the Home Care for the elderly program.

**Opioid Crisis Response** – The Governor is recommending \$53.0 million to combat Florida's opioid epidemic. This includes \$15 million for 53 additional residential treatment beds, outpatient treatment and case management, emergency room

<sup>2</sup> Florida TaxWatch, "Analysis of Florida's Behavioral Health Managing Entity Model," March 2015.



treatment and follow up, and outreach for pregnant women with substance abuse disorders. Also included is: \$27.0 million in federal funding for the second year of the Opioid State Targeted Response Grant; \$5.0 million for Naloxone (overdose reversal drug) for first responders; \$1.2 million to enhance the Prescription Drug Monitoring System; \$4.0 million in financial assistance to local law enforcement; and \$0.9 million for handheld narcotic analyzers for state troopers.

**Veteran Affairs** – Last year, the Legislature appropriated \$47.4 million to finish construction of a new Veterans Nursing Home in St. Lucie County and to renovate and retrofit a facility in Orange County into another nursing home. This year, the Governor recommends \$8.2 million and 140 new positions for the initial operation of the two homes (the St. Lucie facility will not be fully operation until 2020). Also recommended are \$2.75 million for veterans' employment support, \$1.4 million for Veterans Treatment Courts, \$2.0 million (doubled the funding) for Building Homes for Heroes and \$2.0 million for the Florida Defense Support Task Force.<sup>3</sup>

## CRIMINAL JUSTICE AND THE COURTS

The Governor's total Public Safety budget recommendation is \$5.291 billion, an increase of \$188.8 million (3.7 percent). The **Department of Corrections'** budget would increase by \$156.2 million (6.2 percent) and add 508 new positions. This includes \$78 million and 476 new positions to enhance mental health services for inmates and \$6.5 million and 12 positions to improve services to inmates with disabilities. Another \$28 million is provided for maintenance and repair of correctional and mental health facilities.

<sup>3</sup> Some of these programs are funded outside of the Department of Veterans' Affairs, in the Department of Economic Opportunities and State Courts budgets.

Other funding issues:

**Juvenile Justice** – The proposed budget includes \$8 million to provide current juvenile detention and probation officers a 10 percent pay raise and to increase the base rate of pay for the juvenile detention and probation officers by 10 percent. Another \$9 million in prevention program funding is provided to allow the Department of Juvenile Justice to contract for evidence-based prevention programs that have been proven to reduce juvenile delinquency. Also recommended is \$14 million to support 140 additional residential beds.

**Law Enforcement** - \$30.0 million is recommended for salary adjustments for the state's 4,800 sworn law enforcement officers that serve in 13 different state agencies. Agencies would submit proposals to the Governor's Office that address recruitment and retention issues in order to secure funding. The Department of Law Enforcement (FDLE) would also receive \$1.3 million for new incident command and emergency ordinance disposal vehicles dedicated to counterterrorism. Another \$4.0 million is provided to offer local law enforcement agencies financial assistance for opioid investigations.

**State Court System** – The Governor's recommended funding is \$1.1 million (0.2 percent) less than current funding and \$65.4 million (10.9 percent) less than requested by the courts. Funding for two IT projects requested by the courts were not recommended.

**Justice Administration** - The Governor also did not fund the significant increases recommended by State Attorneys and Public Defenders. While he does fund 45 new positions for state attorneys, he did not recommend 209 other positions that were requested by state attorneys, public defenders and regional conflict counsels. The Governor also proposes sweeping \$12.0 million from three state attorney and public defender trust funds.

## ENVIRONMENT

The Governor's budget includes a substantial funding increase for the Department of Environmental Protection. The \$1.7 billion recommended budget is \$227.3 million (15.4 percent) more than current spending.

Environmental funding highlights include:

**Everglades Restoration** - \$355.7 million, including \$32.0 million in recurring state funding that was established two years ago. Funding also includes: \$173.8 million for Comprehensive Everglades Restoration Plan projects, including the C-43 Reservoir and land acquisition for additional projects; \$36.0 million for dispersed water management and water storage; and \$50.0 million to accelerate repairs and the Herbert Hoover Dike. The budget also includes the required annual \$64.0 million for the Everglades Agricultural Area reservoir project created last year by the Legislature.

**Springs Restoration** - \$55 million, which is \$5 million above the \$50 million in recurring springs funding.

**Land Acquisition and Management** - \$172.0 million for land acquisition and management. This includes \$50.0 million for Florida Forever land purchases, the remainder is for management of state-owned lands.

**Beach Restoration** - \$50.0 million for the state's annual program, the same as current funding. In addition, \$50.0 million is provided for the state's share of hurricane-related restoration.

**Waste Management and Cleanup** - \$110 million for petroleum tank cleanup, \$8.5 million for dry cleaning site cleanup, \$5.0 million for hazardous waste and \$3.0 million in Solid Waste Management Grants.

**State Parks** - Total funding of \$161.7 million, a \$39.9 million (32.7 percent) increase. This includes a record \$50.0 million for park improvements and another \$9.8 million for maintenance and repairs.

**Sea Level Rise** - \$3.6 million for a new Florida Resilient Coastline Initiative to assist local governments with sea level rise planning, coastal resilience projects, and protection of coral reefs.

**Agriculture** - The Governor's recommendation for the Department of Agriculture and Consumer Services is \$1.705 billion, a \$52.6 million (3.0 percent) decrease from current spending, with funding decreases across virtually all program areas. It is \$168.3 million (9.0 percent) below what was requested by the Agriculture Commissioner. The largest reductions are in Agricultural Economic Development (\$19.7 million) and the Florida Forest Service (\$16.1 million). The Forest Service reduction was largely due to less capital improvement spending--the Conservation and Rural Lands Protection Easements program (\$10.0 million currently) was not funded. The Governor is recommending \$2.4 million for a 10 percent pay increase for forest service firefighters. The Commissioner requested \$8.3 million for a \$10,000 per firefighter increase. The Governor is recommending \$10.0 million (\$2.0 million increase) for citrus research to fight greening and continuing the funding for the Citrus Health Response program (\$7.5 million).

**Fish and Wildlife Conservation Commission** - \$5.5 million to hire 25 new officers to enforce hunting, fishing and boating laws, patrol state parks and other responsibilities. \$1.5 million is provided to combat invasive species like lionfish,<sup>4</sup> pythons, and legu lizards and \$0.5 million is provided to reduce conflicts between humans and bears through

<sup>4</sup> Florida TaxWatch, "Economic Commentary: The Lionfish: Threatening Native Fish and Florida's Fishing Industries," March 2015.



outreach and offsetting the cost of bear-resistant trash cans.

## ECONOMIC DEVELOPMENT AND TRANSPORTATION

One of the most hotly debated budget issues last session involved economic development, as the House sought to eliminate VISIT Florida and Enterprise Florida. Florida TaxWatch research has shown the value in funding tourism marketing and economic development incentives and strongly cautioned against elimination and those programs.<sup>5</sup> While initially not funded by the Legislature last year, they were funded during a special session.

The Governor is recommending \$1.201 billion for the Department of Economic Opportunity, a \$104.3 million (9.5 percent) increase over the current year. Most of the increase is in affordable housing (see below).

**Strategic Business Development** – Funded at \$284.4 billion, an \$18.3 million (6.9 percent) increase.

**Enterprise Florida** - \$23.7 million, including \$7.5 million for marketing Florida's business environment.

**Economic Development Tools** - \$43.1 million (\$18.8 million increase) to continue incentives for business that are meeting their contractual commitments to create jobs and capital investment.

**Florida Job Growth Fund** – \$85.0 million (same as current funding) for the second year of the fund that provides grants for local infrastructure projects with a proven return on investment.

**VISITFLORIDA** - \$100.0 million for the state's tourism marketing arm, a \$50.0 million increase (funded at \$76.0 million last year, but \$26.0 million was non-recurring).

**Space Florida** - \$19.5 million (level funding).

**Local Member Projects** – The total budget reflects the elimination of \$6.6 million in non-vetoed local member economic development projects funded last year (the governor vetoed an additional \$15.1 million of these projects).

**Workforce Services** – Funded at \$483.8 million, a \$3.2 million (0.7 percent) decrease.

**Local Work Force Development Boards** - \$281.8 million (level funding).

**Quick Response Training** - \$20.0 million (\$5.0 increase) for Florida Flex to provide businesses with matching funds for training workers who will be moving into new jobs created in Florida.

**Local Member Projects** – The total budget reflects the elimination of \$4.8 million in non-vetoed local member workforce projects funded last year (the governor vetoed an additional \$2.8 million of these projects).

**Community Development** – Funded at \$405.5 million, a \$87.0 million (27.3 percent) increase.

**Affordable Housing** - \$130.0 million (\$7.0 decrease) for the state's affordable housing programs. The Governor is also recommending \$100.0 million for housing recovery programs due to Hurricane Irma.

**Community Development Grants** – \$154.5 million (level funding) in spending authority for federal grants for weatherization, the Community Development Block Grant, Community Services Block Grants and home energy assistance.

<sup>5</sup> Florida TaxWatch, "A Catalyst for Growth: An Analysis of Florida's Economic Development Incentive Programs," February 2016 and "Investing in Tourism: Analyzing the Economic Impact of Expanding Florida Tourism," January 2013.

**Local Member Projects** – The total budget reflects the elimination of \$10.7 million in non-vetoed local member community development projects funded last year (the governor vetoed an additional \$12.4 million of these projects).

**Transportation** - The Governor's budget funds the Department of Transportation's work program at \$10.1, including:

- \$1.0 billion to expand capacity, including 269 new lane miles;
- \$1.0 billion for maintenance and operation;
- \$616 million for resurfacing 1,962 lane miles;
- \$359 million for aviation improvements;
- \$568 million for transit program improvements;
- \$167.7 million for repair of 63 bridges and replacement of 18 bridges;
- \$186.1 million for safety initiatives;
- \$171.6 million in seaport infrastructure improvements; and
- \$151.3 million for bike and pedestrian trails.

## CONCLUSION

The state's *Long-Range Financial Outlook* had estimated that there would be only a \$52.0 million surplus in General Revenue (GR) available for new initiatives after funding a continuation budget,<sup>6</sup> and that subsequent hurricane-related costs would make the budget outlook even tighter.

Despite this forecast, the Governor's budget would increase total state spending by \$2.4 billion, increase public school funding<sup>7</sup> by \$769.6 million, increase funding to the Department of Environmental Protection by nearly \$300 million, add a net of 565 state employees and cut taxes by

\$180 million.<sup>8</sup> Even with these provisions, the Governor's budget would leave \$400 million more in GR reserves than the \$1.0 billion assumed in the state estimate.

So, how did the Governor balance his budget?

First, it must be remembered that the \$52.0 million surplus estimate only includes GR. The Governor's budget also contains \$1 billion more in federal funds than the current budget, due in large part to \$1.3 billion in spending authority for federally declared disasters. This includes an increase in expected federal funding of \$930 million over current levels.

Total state trust fund spending also would increase by \$773.4 million in the Governor's budget.

The Governor did sweep \$168.0 million from trust funds to GR, but that is far less than the \$323.6 million assumed in the estimated surplus. Basically, these sweeps covered the first-year state impact of his proposed tax cuts--\$158.5 million.

The Governor is also helped by \$69.0 million more in unspent GR carrying forward than was anticipated.

The *Long-Range Financial Outlook* estimated that the state would need to spend \$2.099 billion more in GR than the recurring GR expenditures in the current budget. The Governor's is proposing to fund only \$1.476 billion in additional GR. Clearly, he is not funding everything that was considered a "critical" or "high priority" need.

For example, his total proposed GR funding for education is slightly below current spending and \$703.8 million less than anticipated in the Outlook.

<sup>6</sup> Florida Legislature, "Long-Range Financial Outlook Fiscal Years 2018-19 through 2020-21", Fall 2017. See also: Florida TaxWatch, "Budget Watch: Hurricane Irma Likely to Turn Next Year's Small Budget Surplus into a Shortfall," September 2017.

<sup>7</sup> Funding for the Florida Education Finance Program (FEFP).

<sup>8</sup> The Governor's tax cut recommendation would have a first-year impact of -\$158.5 million on the state budget and a recurring -\$92.0 million in succeeding years. The Governor arrives at his -\$180 million total by adding the first-year non-recurring state and local cuts (-\$88.2 million) to the recurring value of the other cuts (-\$92.0 million), including the traffic citation reduction.

Proposed GR funding for higher education and education capital outlay is \$207.8 million less than current spending.

The Governor does increase total funding for public schools significantly, but \$543.3 million (70.6 percent) of the \$769.6 million increase for the FEFP comes from local property taxes, which are not reflected in the budget totals.

The proposed budget reduces GR spending for 11 agencies.

The Governor also includes some cost savings in his budget, he puts the number at \$144.0 million. This includes: debt service reductions (\$76.0 million); operational administrative efficiencies (\$18.0 million); contract and lease renegotiations (\$6.0 million); and a new formulary model for managing the state employee prescription drug program.<sup>9</sup>

The Governor is also—as he has every year—supporting a long-time Florida TaxWatch recommendation to have all state employees pay the same health care premiums. This would mean that senior management and select exempt employees would pay more—the same amount as other employees do now, saving \$21.6 million annually.

The Governor's proposed budget is simply the starting point for the legislative budget process. While it will serve as the framework for the new budget, the spending plan passed by the Legislature could look much different.

The battle over economic development issues is not expected to be as fierce, but the House may not, at least initially, be on board with the Governor's funding increases.

Local member projects will be another debate. Virtually every year, the budget includes millions of dollars of local projects, often placed in the budget with little scrutiny or debate or outside of established competitive processes.<sup>10</sup> The transparency for these projects has improved in recent years. The Legislature funded \$630 million worth of these projects in the current budget. House Speaker Richard Corcoran has suggested the House will not fund member projects this year, instead using the money for hurricane recovery.<sup>11</sup> The Senate President Negron rejected that approach, citing the constitutional authority of the Legislature to appropriate money and the value of these projects. The speaker will also certainly be encouraged by many of his fellow representatives to fund local projects.

Despite the Speaker's position, there have already been 894 appropriations project bills filed, containing \$1.4 billion worth of projects,<sup>12</sup> an appropriations subcommittee has already begun approving these bills, qualifying them for—but not guaranteeing—inclusion in the budget. Members of the Senate—which does not have as formal of a process as the House—have also filed hundreds of requests.

Another contentious issue—and perhaps the one that would have the most reverberations throughout the budget—is public school funding. The Governor is proposing keeping the same school millage rate and, this year, and rising property values would result in \$534.3 million in additional property taxes for schools, funding 70 percent of the Governor's public school increase. The last two years, the Legislature has reduced the school millage rate, instead putting more state

<sup>9</sup> The Governor's Office estimates this will save \$54 million annually, but since it does not take effect until January 1, 2019, FY 2018-19 savings will presumably be less.

<sup>10</sup> Florida TaxWatch, "Budget Turkey Watch Report," annual publication.

<sup>11</sup> Steve Bosquet, Tampa Bay Times, "Corcoran's new hurricane panel faces clashes with Senate, Democrats," September 19, 2017.

<sup>12</sup> As of November 29, 2017.

money into the FEFP. The House Speaker believes the Governor's approach constitutes a tax increase and has said the House will not increase taxes. The Governor's position, like that of many others—including many senators—is that rising property values coupled with the same millage rate does not constitute a tax increase. However, Florida's Truth in Millage (TRIM) law characterizes it as such, requiring local governments to advertise any rate over the "rolled-back rate" as a tax increase.<sup>13</sup> Reducing that property tax increase would require more state funds to reach the Governor's recommended funding level.

The Legislature also has its priorities, such as the Senate wanting to increase higher education funding. The House also created a Select Committee on Hurricane Response and Preparedness which is currently formulating recommendations, some which would likely carry a significant price tag.

There is certainly support for cutting taxes in the Legislature but lawmakers, particularly the Senate, may roll out smaller tax relief packages. Florida TaxWatch reiterates its recommendation that the any tax cut plan include a reduction to the Business Rent Tax.<sup>14</sup>

Florida TaxWatch also reminds the Legislature to think beyond the next budget year. The Long-Range Economic Outlook cautioned, that while there is a slight surplus for the next budget,

shortfalls of over a billion dollars loom in the next two years, its "business as usual" continues.

Florida TaxWatch applauds the Governor's commitment to reduce the cost of government, but more can be done. The Legislature should examine the base budget carefully to cut waste and unnecessary spending. One way to help achieve funding vital initiatives and reducing taxes is to implement the recommendations of the 2016 Government Efficiency Task Force (GETF).<sup>15</sup>

The 29 recommendations within the final GETF report addresses issues from telehealth to criminal justice to efficiency in state contracting. The state could realize savings and cost avoidance upwards of \$2 billion if these recommendations were implemented.

Hopefully, the Legislature will adhere to the rules regarding member projects that were adopted last year,<sup>16</sup> helping to shine a light and reduce spending on questionable parochial projects.

Florida TaxWatch will continue to work this session to help ensure that cost savings and improvements in the way government does business continue to be priority, that the tax package creates the most "bang for the buck" possible, and that added appropriation items get the scrutiny and debate they deserve.

<sup>13</sup> Section 200.65, Florida Statutes.

<sup>14</sup> Florida TaxWatch, "Reducing the Business Rent Tax," October 2015.

<sup>15</sup> Florida's 2016 Government Efficiency Task Force, <http://www.floridatxwatch.org/library/2016getf.aspx>

<sup>16</sup> Florida TaxWatch Blog, "Are Budget Turkeys an Endangered Species?" March 16, 2017. <http://www.floridatxwatch.org/blog.aspx>

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