BudgetWatch
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Florida TaxWatch

HURRICANE IRMA LIKELY TO TURN NEXT YEAR'S SMALL BUDGET SURPLUS INTO A SHORTFALL

The Joint Legislative Budget Commission (LBC) met recently to adopt the *Long-Range Financial Outlook*, the constitutionally required annual report that looks at estimated revenues versus expenditures. The *Outlook* gives the Legislature a sense of the state's budget position going into session and whether lawmakers can expect a budget shortfall or surplus.

The new *Outlook* forecasts that after funding a continuation budget, there will be $52.0 million in General Revenue (GR) left over. However, this estimate was developed before Hurricane Irma, and the LBC was advised to expect that the small surplus would be more than wiped out by needed hurricane-related budget amendments (see "Impact of Hurricanes" on page 11). In short, it is expected there will be a budget shortfall next year (FY2018-19).

Even before the hurricane is considered, the *Outlook* estimated the state was facing large shortfalls of $1.1 billion in FY2019-20 and $1.6 billion in FY2020-21. This is due to the continuing "structural imbalance" of the state's recurring expenditures exceed recurring revenues. The hurricane will make it worse.

The *Outlook* further estimates that (even based on a $52.0 million surplus) $369.5 million in spending cuts and/or revenue increases in each of the next three years will be needed to erase the shortfall in FY2020-21. An additional $189.6 million in recurring spending will have to be converted to non-recurring. Postponing corrective actions will make it even more difficult to resolve the future shortfalls.

Surpluses/Shortfalls Projected by the Long Range Financial Outlooks ($ millions)

2008-09	(2,334.5)
2009-10	(3,306.3)
2010-11	(2,654.4)
2011-12	(2,510.7)
2012-13	273.8
2013-14	71.3
2014-15	845.7
2015-16	336.2
2016-17	635.4
2017-18	7.5
2018-19*	**52.0**
2019-20*	**(1,146.2)**
2020-21*	**(1,639.6)**

** forecast in latest Outlook*

HIGHLIGHTS

- State economists estimate that before the impacts of Hurricane Irma are considered, the 2018 Legislature will have an estimated General Revenue (GR) budget surplus of $52.0 million when they develop the next state budget (FY2018-19). However, it is expected hurricane-related budget amendments will turn that surplus into a shortfall before session begins in January.
- Without budget or revenue changes, a shortfall is forecast in each of the following two years, totaling $1.1 billion and $1.6 billion, respectively.
- "Critical needs" will only require a net additional $17.8 million over the recurring GR base budget in FY2018-19 but "high priority needs" will require an additional $2.042 billion.
- Maintaining Medicaid is the largest "critical need," requiring an additional $325.7 million in GR. Funding increased public school enrollment will cost a total of $354.4 million, but the *Outlook* assumes an estimated $643.3 million in additional non-GR education funds will be available to fund this.
- The "critical needs" estimate assumes the Required Local Effort (RLE) school property tax millage rate will not change, which would produce an additional $509.1 million from rising property values. However, the "high priority needs" estimate assumes the Legislature will maintain the current dollar amount of RLE, as it has in the two years. This would require $425.8 million in additional state money to fund increased enrollment and a 1.79 percent increase in per student funding.
- The *Outlook* assumes there will be tax cuts ($153.4 million) and trust fund sweeps ($323.6 million) in each of the three years. These two items have a combined positive effect of $170.2 million on the next budget, but the compound effect of the tax cuts results in a $112.1 million reduction in FY2020-21.
- 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 seven years, ranging as high as $1.6 billion. Any reserve larger than $1.0 billion would reduce the surplus.
- It will take some combination of budget reductions or revenue increases totaling $369.5 million in each of the next three years to erase the projected shortfall in FY2020-21.

Budget Outlook - FY2018-19 through FY2020-21

General Revenue - $ in millions

	FY18-19	FY19-20	FY20-21
Revenues			
Unspent GR from Prior Year	$1,428.9	$1,052.0	$1,000.0
New General Revenue	$32,201.4	$33,474.9	$34,714.5
BP Settlement	$26.7	$26.7	$26.7
Non-Op Funds and Transfers	$97.9	$97.9	$97.9
Tax Cuts	($153.4)	($294.5)	($435.7)
Trust Fund Sweeps	$323.6	$323.6	$323.6
Total GR Available for Appropriation	***$33,925.1***	***$34,680.6***	***$35,727.0***
Expenditures			
2017-18 Base Budget	$30,744.3	$32,075.4	$34,084.1
Increase - Critical Needs	$17.8	$753.4	$317.4
Increase - High Priority Needs	$2,042.8	$1,925.1	$1,911.3
Transfer - Budget Stabilization Fund	$68.2	$72.9	$53.8
Total Needed for Continuation Budget	***$32,873.1***	***$34,826.8***	***$36,366.6***
Cash Reserves	***$1,000.0***	***$1,000.0***	***$1,000.0***
Surplus/(Shortfall)	**$52.0**	**($1,146.2)**	**($1,639.6)**

Source: Florida TaxWatch from data in the 2017 Long Range Financial Outlook

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 students is included as a critical need but an increase to per student funding is not. Historically, maintaining per-student Pre K-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. For example, while Critical Needs include only the cost of maintaining per-student funding, this year's High Priority Needs include a 1.79 percent increase in per-student funding (the average increase of the last three years).

Adding these two categories to the recurring expenditures in the current budget comprises what can be thought of as a continuation budget.

REVENUE ADJUSTMENTS

Beginning in 2015, the *Outlook* began assuming that the Legislature will cut taxes (reducing GR) and sweep trust funds[1] (increasing GR). Before 2015, the size of any estimated surplus was used by some as a gauge of the likelihood that there would be tax reductions. Now, tax cuts are built in. This year, it is assumed the Legislature will enact $153.4 million[2] in net tax and fee reductions that reduce GR in each of the three years. This is the average of the last three years' worth of tax relief. This includes $89.5 million in recurring cuts (such as permanent tax rate decreases or new exemptions) and $69.3 million of non-recurring cuts (one-time reductions such as sales tax holidays.)

In the short-term, this reduction is more than offset by the inclusion of trust fund sweeps, which are estimated at $323.6 million each year. Including these two revenue adjustments results in a positive impact on available GR for next year of $170.2 million. However, over the next years of the *Outlook's* forecast horizon, the net impact of these two factors increases significantly. The recurring portion of the tax cuts compounds each year, resulting in a net reduction from tax cuts and trust fund sweeps of $112.1 million in FY2020-21, pushing the estimated shortfall to $1.6 billion.

1 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.

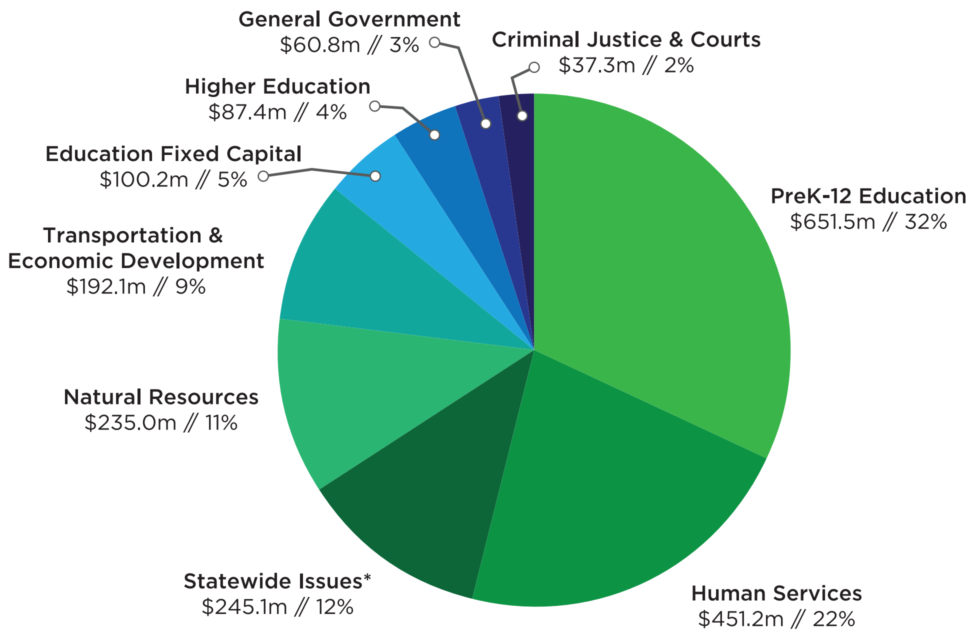
2 This is the first year impact of the tax cut. Because recurring tax cuts usually have delayed effective dates, the first year impact is less than the annualized amount. The annualized amount (plus the non-recurring cuts) is $230.6 million.

WHAT ARE THE $2.1 BILLION IN ESTIMATED INCREASED NEEDS FOR FY2018-19?

The estimated net General Revenue needed to fund the additional "critical needs" in the next budget is only $17.8 million. This is because maintaining the current Education budget and funding new students will require $523.1 million less in GR than the current budget. Projected increases in other revenue sources (see below) would free up GR currently spent on Education for other areas—almost enough to cover the rest of the budget's critical needs. Human Services has the largest (GR) critical needs--$316.4 million. However, it is estimated that "high priority needs" will require an additional $2,042.8 million.

Critical and High Priority Needs by Program Area

$ millions



** Includes state employee salary and benefit increases, capital improvements, statewide technology issues, etc.*
Source: Florida TaxWatch from data in the 2017 Long Range Financial Outlook

PreK- 12 Education (Total Need - $651.5 million)

Critical Needs (-288.9 million) – Maintaining the current PreK-12 budget and funding new students will require an additional $354.4 million. This includes $197.0 million for 27,184 new K-12 students and $3.4 million for 1,269 more students in the Voluntary Pre-Kindergarten Program. However, a large balance forward of unspent lottery revenues will result in $134.2 million in additional Educational Enhancement Trust Fund (EETF) revenue being available to help fund this need. The critical needs estimate also assumes the Legislature will keep the same school property tax millage rate for RLE,[3] resulting in $509.1 million in

3 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 $7.6 billion-- in the General Appropriations Act each year. The current RLE millage rate is 4.308 mills statewide, plus a non-voted local discretionary millage of 0.748 mills.

additional revenue from increasing property values. This may not happen (see the High Priority Needs section). These increased non-GR revenue sources means that $288.9 million less in GR will be needed for the critical needs in PreK-12 Education.

High Priority Needs ($940.4 million) – In addition to maintaining per student funding (a critical need), the *Outlook* includes an increase in per student funding equal to the average of the last three years. This would be a 1.79 percent increase for the Florida Education Finance Program (FEFP), costing $373.6[4] million next year.

As discussed above, the estimate of critical needs assumed the Legislature would keep the same RLE millage rate. However, in the last two sessions, the Legislature has opted to maintain total RLE at $7.6 billion. The High Priority Needs estimate anticipates the Legislature doing this again, which would require $425.8 million in extra state funding for the FEFP. This is a possible occurrence, but there is some sentiment in the Legislature to use increased tax collections from property value increases to fund schools. Doing this would turn the projected shortfall[5] into a surplus, but it would result in property owners paying higher taxes.[6]

Based on the average funding over the last three years, the *Outlook* includes $28.3 million for the Gardiner Scholarship Program for children with unique abilities. Increases are also included for the Florida School for the Deaf and Blind ($0.6 million), the Florida Best and Brightest Scholarship Program for teachers and principals ($78.0 million), and incentives for school districts to require students to wear school uniforms ($4.7 million).

Higher Education

Critical Needs (-$234.2 million) – The increased revenue estimates for the EETF also impact higher education, reducing the amount of GR needed to maintain current spending by $234.1 million. This added revenue, along with reduction in needed funding for Bright Futures scholarships,[7] means that $234.2 million less in GR will be needed for the critical needs in higher education.

High Priority Needs ($321.6 million) – While Higher Education critical needs include a decrease in funding for Bright Futures (due to veto of the bill authorizing the payment of differential tuition and technology fees), funding was provided in the current budget for the increased scholarship awards. An additional $71.7 million is needed to continue to pay differential and tech fees. This funding would come from the EETF but would require $42.2 million in GR to replace the lost EETF in other education program areas.

Additionally, $40 million is included to restore performance incentive funding for state colleges. Increased funding based on the three-year average appropriations increase is provided for universities ($169.5 million), colleges ($23.5 million) and financial aid programs ($43.9 million). An increase of $5.3 million

4 Includes $16.1 million attributable to maintaining the current level of RLE.
5 "projected shortfall" includes expected hurricane expenses not included in the *Outlook*.
6 There is a difference of opinion in the Legislature about whether keeping the same RLE millage rate constitutes a "tax increase." Some believe added taxes from increased values constitutes a tax increase, while other say if the millage rate stays the same, it is not a tax increase. The first position is consistent with Florida law governing proposed local government millage rates.
7 Funding to increase awards to include tuition differentials and technology fees was provided in the 2017-18 budget. However, the statutory authority to pay this was vetoed by the Governor (SB 374). There is a small expected increase in the number of awards.

is also provided for the Benacquisto Scholarship Program for National Merit and National Achievement Scholars. Another $2.5 million is provided for operational costs for newly constructed university and college facilities already authorized by the Legislature.

Education Capital Outlay

High Priority Needs ($100.2 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. Due to the state's recent policy of not bonding for PECO, the *Outlook* assumes GR will be used to maintain current spending levels. To maintain the three-year average (excluding any member projects), $100.2 million would be needed.

Health & Human Services

Critical Needs ($316.4 million) – Medicaid is a $26.8 billion federal and state program, the largest single program in the state budget. Not surprisingly, its growth creates the largest need for additional funding in a continuation budget. Total Medicaid beneficiaries are expected to reach 4.1 million. This is a 1.4 percent increase in caseloads for next year, adding 58,445 persons to the program. Similar growth is expected in each of the following two years. Funding the state share of the increased enrollment, along with medical inflation, is expected to require an additional $325.7 million in GR.

The Patient Protection and Affordable Care Act increased the federal share of funding for Florida's Kidcare program by 23 percentage points through September 30, 2019. The federal government is now paying just over 96 percent of the total cost for Kidcare. Still, an increase of 11,763 beneficiaries (5.2 percent) will require an additional $1.7 million in GR. While the increased federal share has helped keep state funding down for this program, the federal share is scheduled to decrease to 78.9 percent in FY2019-20 and to $73.3 percent in FY2020-21. This will result in additional GR spending of $93.6 million and $41.8 million in those two years, respectively.

Two issues will decrease the amount of GR for new critical needs in Health & Human Services. A decline in Temporary Assistance for Needy Families (TANF) caseloads will reduce needed GR by $2.9 million. In addition, there is expected to be enough money in the Tobacco Settlement Trust Fund to use $8.1 million to reduce the amount of GR needed to fund costs throughout the policy area.

High Priority Needs ($134.8 million) - $26.4 million is included for additional Medicaid waiver slots for the elderly and individuals with brain and spinal cord injuries, Medicaid consulting and actuarial services, and Medicaid provider rate increases. Increases in GR funding for the following agency programs are also provided:

Children and Families ($42.2 million) – This includes increases for adoption subsidies, community based care lead agencies, child abuse investigations by sheriffs, foster care, homeless coalitions, claims bills, domestic abuse prevention and services, child welfare legal services, and mental health and substance abuse initiatives.

Health ($20.0 million) – Funding increases are provided for Early Steps, cancer screening, biomedical research, WIC, the Afterschool Meals Program, newborn screening, poison control centers and health centers, disability determinations, and the Office of Medical Marijuana Use.

Persons with Disabilities ($35.1 million) – These dollars are for reducing the waitlist for the developmental disability waiver, supported employee and internship programs, and Medicaid Waiver provider rate increases.

Veterans Affairs ($2.0 million) – Increases are provided for Florida is For Veterans, Inc., the Entrepreneurship Program, and the Veterans Training Grants Program.

Elder Affairs ($5.9 million) – Additional funding is provided or restored 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 $3.2 million for human services information technology costs.

Transportation and Economic Development

Critical Needs ($67.0 million)– The Department of Transportation's work program is not funded with GR, so transportation system needs are not reflected here. One critical needs item is included: $67.0 million for the state match for federal FEMA disaster funding. **It is important to note that this does not include any of the costs associated with Hurricane Irma or any future natural disaster.**

High Priority Needs ($125.1 million) –$49.1 million in GR is included for economic development and workforce programs, including funding for programs previously funded through the State Economic Enhancement and Development (SEED) Trust Fund.[8] Funding is included for National Guard armories and other military affairs priorities ($5.7 million). Funding for the Department of State's library, cultural, historical, and election priorities ($70.3 million) is also included, reflecting the Legislature's increased funding for these programs in recent years.

Criminal Justice & Courts

Critical Needs (-$8.4 million) – It is estimated that Florida's prison population will decrease slightly in each year of the *Outlook*, falling from its current level of 97,260 inmates to 96,210 in three years. This helps reduce operational costs that include prison security and institutional operations, food service, inmate health services, and educational and substance abuse programming for inmates. The *Outlook* estimates a $8.4 million <u>reduction</u> in costs for the next budget.

High Priority Needs ($47.5 million) – Funding is provided for increased due process costs ($2.6 million), juvenile justice prevention and intervention programs ($1.3 million), inmate health services and pharmaceuticals ($25.4 million), and the settlement of a lawsuit relating to the accommodations of inmates with disabilities ($6.4 million).

8 The 2017 Legislature cut the SEED Trust Fund in half redirecting $75 million of its revenue into GR.

Natural Resources

High Priority Needs ($235.0 million) – Although there are no additional critical needs identified in Natural Resources in the *Outlook*, significant high priority needs are included. Funding of $450.7 million ($235.0 million in GR) is provided for a myriad of environmental and agricultural programs including Everglades restoration, conservation and recreational land acquisition and management, springs protection, Lake Apopka restoration, local parks, beach restoration, local water projects, drinking water and wastewater loans, aquaculture grants, agriculture promotion, and citrus research. Funding is based on the average of the last three years of appropriations. No money is included here for springs protection—a recent legislative priority. This is because the 2016 Legislature dedicated $50 million in recurring funds for springs, therefore it is included in the base budget.

General Government

Critical Needs ($28.6 million) - A state law requiring the Legislature to provide money to fiscally constrained counties to offset property tax reductions arising from two constitutional amendments will cost $28.7 million. A small reduction ($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).

High Priority Needs ($32.2 million) – GR of $17.0 million is included for general repair and maintenance of the state building pool, $11.6 million for the replacement of the state's accounting system (FLAIR) and $3.6 million is provided for other general government activities.

Administered Funds (Statewide Issues)

Critical Needs ($137.3 million) – State contributions for state employee health insurance are expected to increase by $209.0 million next year, which will require $137.2 million in GR. No additional funds are needed next year for the state's Risk Management Insurance Program, but a total of $29.2 million will be needed over the next two years. The *Outlook* assumes no unfunded liability in the Florida Retirement System. The Legislature has been providing full funding to amortize any unfunded liability and the state has lowered the expected investment rate of return (currently 7.6 percent) in two of the last three years. Further reductions are very possible. A reduction of 5 basis points (0.05 percent) would require $61.8 million ($55.4 million in GR) next year.

High Priority Needs ($107.8 million) - GR of $37.9 million is provided for state employee bonuses and competitive, merit, and retention pay adjustments. $69.9 million is provided for critical capital improvements of state buildings.

MUCH CAN CHANGE BETWEEN NOW AND WHEN THE NEXT BUDGET IS FINISHED

There are a huge number of factors that impact the estimate of budget shortfalls and surpluses. There will be another round of estimating conferences before the legislative session begins in January (or soon after it starts) that could significantly change—either up or down--the estimate of available revenue.

In addition to the impacts from Hurricane Irma, there are other factors that suggest that the next budget process may be even tighter than the Outlook suggests.

One is the fact that the Legislature has been transferring a high level of trust fund revenues into GR in order to balance past budgets. The *Outlook* assumes the 2018 Legislature will "sweep" $323.6 million from trust funds (the average of the past three years). However, due to these trust funds' depleted balances, it is very unlikely all those revenues will materialize.

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 seven years, ranging as high as $1.6 billion. Current reserves are just under $1.5 billion.[9] Any reserve larger than $1.0 billion would increase the shortfall.

There is other likely spending that is not included in the *Outlook* that would qualify as a critical need. Here are two examples:

- First, the probable passage of a proposed constitutional amendment creating a new homestead exemption would require the state to reimburse fiscally constrained counties an estimated $10 million to $15 million for the amendments impact of their property tax revenue.
- Secondly, the Florida Retirement System currently assumes an expected investment rate of return of 7.6 percent. That rate has been reduced in two of the last three years and further reductions are very possible. A reduction of 5 basis points (0.05 percent) would require $61.8 million ($55.4 million in GR) in additional state contributions next year.

The state is continually involved in numerous lawsuits, some of which could impact the state budget. The *Outlook* highlights two such examples:

- The first involves cases seeking compensation for residential citrus trees removed under the former Citrus Canker Eradication Program in Broward, Lee, Palm Beach, and Orange counties.
- Second, the Florida Department of Corrections is involved in current lawsuits dealing with mental health facilities and prisoners with the hepatitis C virus that could have a significant fiscal impact.

Despite this potential negative impacts on the budget, it must also be acknowledged that there is enough GR available to fund the "critical needs." It is the "high priority needs" that that are stretching GR too thin. There are many valuable programs in this category but the Legislature does not have to fund everything that is in the current budget, especially at the same level as the last three years. The recent increased

9 In addition to unobligated GR, state reserves include the Budget Stabilization Fund ($1.4 billion) and the Lawton Chiles Endowment Fund ($713.4 million).

funding focus on some areas—such as environmental programs and library, cultural and historic grants—may overstate some estimates made in the *Outlook*.

Another important decision is the level of Required Local Effort property taxes for schools (discussed earlier). The *Outlook* plays it both ways—its critical needs estimate assumes $509.1 million more in school property taxes by keep the same millage rate and allowing rising property values to produce more revenue. The estimate of high priority needs assumes the Legislature will maintain the current total dollar amount of RLE ($7.6 billion), which would require a reduction in the millage rate and $425.8 million in additional state money to fund increased enrollment and a 1.79 percent increase in per student funding. Any increase in RLE above the $7.6 billion level will improve the budget's bottom line, but there are many lawmakers opposed to increasing property taxes.

THE IMPACT OF HURRICANES

The Legislature was advised[1] to expect Hurricane Irma to eliminate the $52 million surplus estimated by the Outlook. This is contrary to a widely-held perception that hurricanes are money-makers for state governments.The large increases in revenue collections following the 2004 and 2005 hurricanes in Florida were attributed by many to tax revenue resulting from rebuilding efforts (in addition to the housing bubble). While some small increase in revenue may have occurred, the idea that hurricanes positively effect government finances has largely been proved to be a misconception, and expenses related to major weather disaster exceed any additional revenue.[2]

In the short-term, budget amendments will be needed to address immediate funding needs. The next budget will also contain hurricane related funding not included in the *Outlook*. House Speaker Richard Corcoran has announced the creation of a Select Committee on Hurricane Response and Preparedness which will consider recovery funding.

In addition to increased expenditures, revenues may also be negatively impacted by hurricanes. While there is an uptick in the recovery phase, other phases show a decrease in revenue. The potential negative impact of Irma on tourism—which provides 13 percent of the state's sales tax revenues—is also an important consideration.

1 Amy Baker, Coordinator, Office of Economic and Demographic Research, presentation to the Joint Legislative Budget Committee, September 15, 2017.

2 After the 2004 and 2005 hurricanes, the Legislative Office of Economic and Demographic Research undertook an in-depth analysis of the revenue and budgetary impact of hurricanes The state's hurricane-related expenditures were compared to the estimated additional revenues and the bottom line was clearly negative.

CONCLUSION

The *Outlook* is not meant as a blueprint for the next state budget and the estimate of any surplus or shortfall is debatable. However, it is clear the Legislature must cut some current spending (or increase revenues) if it wants to fund any new initiatives. It also highlights that fact that, while the next budget can be balanced without too much trouble, 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. If the state spends all the available GR next year (regardless of whether it is a continuation budget or some current spending is redirected to new initiatives), the projected future shortfall will be more difficult to address.

The *Outlook* estimates that (even based on a $52.0 million surplus) $369.5 million in spending cuts and/or revenue increases in each of the next three years will be needed to erase the shortfall in FY2020-21. An additional $189.6 million in recurring spending will have to be converted to non-recurring.

Significant revenue increases (tax hikes) are extremely unlikely. Additional tax cuts will be debated this session and while some tax reduction is likely, it may be less than what is assumed in the *Outlook*.

The largest impact on the shortfalls will likely (and should) come from reductions in appropriations. The recurring base budget deserves a continued closer look. This is where spending can become imbedded in the budget, even after it has outlived its usefulness.

One way to help achieve the needed budget fix is to implement the recommendations of the 2016 Government Efficiency Task Force (GETF). The 29 recommendations within the final GETF report range on 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. Florida TaxWatch also urges considerable restraint by lawmakers in requesting local member projects.

The monthly Budget Watch is written by **Kurt Wenner, VP of Research**

Robert Weissert, Executive VP & Counsel to the President & CEO
Chris Barry, Director of Publications

David Mann, Chairman of the Board of Trustees, Florida TaxWatch
Dominic M. Calabro, President and CEO, Publisher & Editor

Florida TaxWatch Research Institute, Inc.
www.floridataxwatch.org

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