

Budget Watch

JANUARY 2014



GOVERNOR'S RECOMMENDED BUDGET HOLDS THE LINE ON TOTAL STATE SPENDING AND CUTS TAXES

Governor Rick Scott's FY 2014-15 proposed budget for the state of Florida totals \$74.20 billion, which is slightly less (0.06 percent) than current year spending of \$74.24 billion. The budget recommendations include \$27.5 billion in General Revenue spending, an \$831 million increase (3.1 percent) over current spending.

The Governor's proposal would provide \$574 million in total recurring state and local tax cuts, resulting in state tax savings of \$516 million in the next budget year (\$25.5 million in first year local tax reductions).

The budget would fund 114,428 state employee positions, a net reduction of 57 positions from the current year.

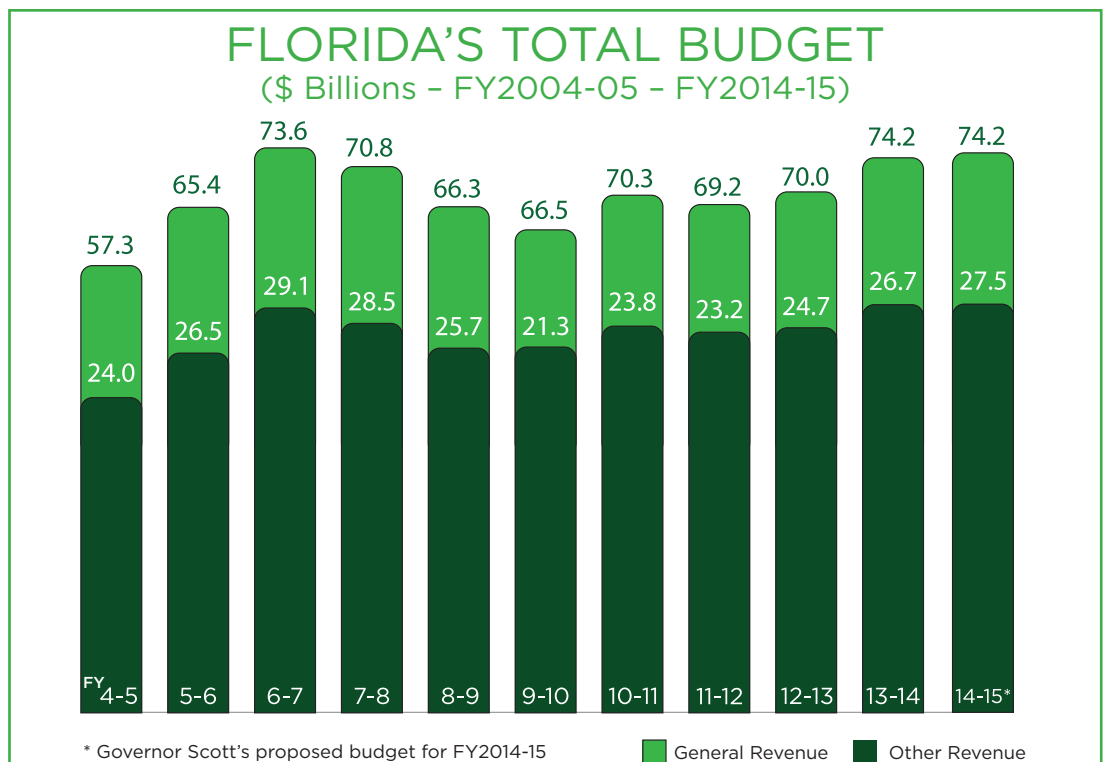
The state would be left with general revenue reserves of \$1.7 billion, plus another \$1.1 billion in the Budget Stabilization Fund, \$600 million in the Lawton Chiles Endowment and \$1.7 billion in other trust fund reserves. This means total reserves of \$5.1 billion.

Despite the small reduction in total state spending, the Governor is proposing increased funding for some of his top priorities including education, tourism promotion, the Everglades and springs restoration, child protective services and STEM training.

THE GOVERNOR'S TAX PROPOSALS

The cornerstone of Governor Scott's "It's Your Money Tax Cut Budget" is more than \$570 million in recurring tax reductions and \$69.2 million in one-time tax savings (see table on page 2). He has not recommended any revenue increases, although his education funding proposal recommends the same local education property tax millage rate, which will result in an additional \$326 million (4.8 percent) in school property taxes.

Motor Vehicle License Fees – The Governor's Budget would roll back the annual motor vehicle license renewal registration fee increase that was enacted by the 2009 Legislature to help meet the budget shortfall. This will provide annual savings of \$25 for the typical car registered in Florida.



Overall, this reduction saves drivers \$401 million. This proposed tax cut, introduced last year by Senate Appropriations Chair Joe Negron, has the strong support of legislative leaders.

Sales Tax on Business Rents: The Governor is recommending reducing the sales tax on commercial leases by 0.5 percent, saving businesses more than \$104 million annually. Florida is the only state that applies sales tax to commercial rents at an increased cost to businesses of about \$1.4 billion per year. Governor Scott states this is the first step in the future elimination of this tax.

Corporate Income Tax: Another goal of Governor Scott has been the elimination of the corporate income tax. The standard exemption was increased from \$5,000 to \$25,000 in 2011 and to \$50,000 in 2012. He is now recommending increasing the exemption to \$75,000, freeing another 2,000 corporations from having to pay the tax.

Corporate Filing Fees: The Governor recommends the corporate filing fee be lowered so that every form of business pays the same amount and reducing the late filing penalty, by basing it on the length of the delay. This would save \$33.3 million annually.

Sales Tax Holidays: The Governor recommends a 10-day back-to-school sales tax holiday, which would be the longest back-to-school sales tax holiday in Florida yet. During this period, no sales tax would be

applied to purchases of school supplies (\$15 or less per item), clothing (\$100 or less per item), or computers (\$750 or less per item). He is also proposing a 15-day sales tax holiday for hurricane preparedness supplies. These two sales tax holidays would save consumers \$82.5 million in the upcoming fiscal year.

COST SAVINGS & EFFICIENCIES

The Governor's budget includes \$287 million in cost savings and increased efficiencies (such as requiring contract re-negotiation) will provide an additional \$175 million in cost avoidance.

Another \$300.5 million in budget reductions is proposed by eliminating "excess federal and state trust fund spending authority that is no longer needed."

Eliminating 1,233 state positions would save \$74.9 million. This helps fund new positions in other areas (see State Employee section on page 4).

The budget would also reduce state debt by paying off an additional \$170 million in debt, saving \$44.6 million in interest over 10 years. No new debt would be issued except to support the Department of Transportation Work Program.

The Governor also reviewed recurring "earmarks" and his budget would eliminate \$21.9 million of these projects. The issue of recurring earmarks has been highlighted by the Florida TaxWatch *Budget Turkey Watch Report*.

GOVERNOR'S PROPOSED TAX CUTS

	First Year	Recurring
Rollback Motor Vehicle Fees	\$312.5	\$401.3
Reduce Sales Tax on Commercial Rents by 0.5%	107.9	117.8
Reduce Corporate Filing Fees	29.8	33.3
Increase Corporate Income Tax Exemption to \$75,000	8.8	21.6
Sales Tax Holiday – School Supplies	59.8	0
Sales Tax Holiday – Hurricane Preparedness	22.7	0
Total*	\$541.5	\$574.0

* \$25.5 million in the first year and \$13.4 million in recurring revenue loss will be incurred by local governments

The Governor also includes a number of efficiency measures that have been recommendations of Florida TaxWatch and the TaxWatch Center for Government Efficiency. Among these are:

Contract Management – the renegotiation of contracts will save \$4.2 million next year and has saved \$24.6 million over the past three years.

Real Estate Optimization – better utilize existing space, reduce energy consumption, achieve lease cost savings and optimize facility operations, saving \$14.4 million.

Reducing Medicaid Fraud – the budget proposes \$5 million to fund the Public Benefits Integrity Data Analytics and Information Sharing Initiative, which is a predictive approach to analyzing data to prevent fraud.

State Employee Health Insurance – all employees would pay the same amount for health insurance coverage, reducing the state's contribution for health insurance coverage for employees in the Senior Management Service and Selected Exempt Service systems. This would save \$25.8 million.

IT Governance – the creation of the Agency for State Technology with the resources and authority to consolidate IT governance throughout state government and save Florida taxpayers up to \$20 million with only a one percent efficiency improvement.

Medicaid payments – \$32.5 million in savings resulting from the transition to the Diagnostic Related Group (DRG) Medicaid payment system

Increased Use of Electronic Monitoring of Inmates – see Public Safety section.

BUDGET HIGHLIGHTS

EDUCATION

The budget proposes \$18.8 billion in total (state and local) funding for K-12 education. This represents an increase of \$542 million (3 percent) and would be the highest funding level in Florida history. This would increase per-student spending by \$169 (or 2.5 percent) bringing the total per student to \$6,949.

While state funding of \$10.6 billion would also be the most in history, local property taxes are paying for most of the \$542 million increase. Required local effort (the amount of property taxes the legislature requires school districts to levy to participate in the education funding program) is set at \$7.2 billion. The required millage rate would stay the same. Add to this more than \$1 billion from discretionary local taxes and local school property taxes are increasing by \$375 million.

Other K-12 Education Funding Highlights

- Funding for the more than 12,500 new students expected to be enrolled in Florida public schools;
- \$8.9 million to implement a Summer Algebra Initiative;
- \$40 million to school districts for digital learning;
- a \$13.4 million increase for principal and teacher training;
- \$15.8 million for results-based mentoring programs;
- \$80 million for the maintenance, repair and renovation of K-12 facilities;
- \$72.1 million for school construction in seven small districts; and
- \$90.6 million for charter schools fixed capital outlay.

Principal Professional Development – An increase in professional development funding for school principal training is included in the budget proposal. The \$8.4 million increase in funding is aligned to Florida TaxWatch recommendations, as illustrated by the TaxWatch Elite Principal Initiative.

Early Learning – The recommended budget provides a \$59.4 million (5.6 percent) increase in early learning funding. School readiness will receive the highest increase in funding in the last decade. The total early learning budget is \$1.1 billion. This includes an increase of \$100 per child in the state’s Voluntary Prekindergarten (VPK) program.

Higher Education – The proposed budget would provide \$1.2 billion for the state college system—a \$48 million increase. The State University System would receive \$4.2 billion—a \$118 million increase. The Governor does not propose any tuition increases.

The higher education budget also includes \$160 million in performance funding, an \$80 increase. A long-standing TaxWatch recommendation, performance-based funding holds Florida’s higher-education institutions accountable, and will better help our education system prepare students for high-wage, high-skill jobs, resulting in future economic growth and diversification in the Sunshine State.

Colleges would also receive \$10 million in performance bonuses based on students earning industry certifications in high-skill/high-wage occupation.

And while the Public Education Capital Outlay (PECO) Fund again has no money for bonding, the Governor does recommend \$157.9 million in cash for higher education capital needs. These include \$57 million for college and university maintenance projects, and \$70 million to expand STEM education through facility construction and renovation with a required dollar for dollar match.

HEALTH AND HUMAN SERVICES

The recommended budget proposes \$30.3 billion in total funding for the Human Services policy area, including \$22.3 billion for Medicaid.

Human Service budget highlights:

- \$27.6 million to reduce long-term care waitlists;
- restoring the Healthy Families program to statewide capacity for the first time in five year;
- \$32.5 million in savings resulting from the transition to the Diagnostic Related Group (DRG) Medicaid payment system, as recommended by Florida TaxWatch;
- \$80 million for cancer research;
- a \$39 million increase to enhance child abuse and neglect investigations;
- \$20 million in additional funding to enroll all remaining individuals with critical needs from the waiting list onto the Developmental Disabilities Waiver program; and
- level funding of mental health and substance abuse services.

STATE EMPLOYEES

While not recommending an across-the-board salary increase, the Governor’s budget does include \$167 million in funding for discretionary state employee bonuses. It would authorize awards of \$5,000 for employees receiving an employee evaluation of outstanding and \$2,500 for employees receiving an employee evaluation of commendable. These bonuses would be at the agency’s discretion and could reward up to 35 percent of the agency’s workforce.

The Governor’s budget funds 114,428 state employee positions, a net reduction of 57 positions from the current year. It does eliminate 1,233 positions, 1,160 of which are currently vacant. However, 1,197 new positions are created, including 447 child protection investigators in the Department of Children and Families and 539 in the Department of Corrections due to the expected increase in inmates.

The budget also proposes that all state employees contribute the same amount to their health insurance, a long-time Florida TaxWatch recommendation. Currently, career service employees pay more than management. This would save \$25.8 million annually.

PUBLIC SAFETY

The recommended Public Safety budget is funded at \$4.6 billion, an increase of 5.0 percent. This includes \$41 million for the current year to close a deficit at the Department of Corrections (DOC).

It is expected 2,271 new inmates will be added to Florida prisons next year. The Governor's budget proposes to build 5 new prison facilities—three work camps and two re-entry centers. None of the facilities closed in past years will be re-opened because the Governor believes that they would be too expensive. The budget would also fund substance abuse and vocational training programs at these new facilities. The treatment programs would be privatized, though DOC would handle the security components.

The budget proposed \$5.8 million to provide electronic monitoring for all inmates in work release programs. Currently, only those in private work release centers are funded. Florida TaxWatch research has long supported the expansion of electronic monitoring.

The Department of Juvenile Justice's budget would be increased by 3 percent to \$542 million.

Twenty-one new judges would be added to the state court system (\$5 million), and no additional money is provided to help close pending foreclosure cases.

The Governor's proposed budget prudently funds smart justice initiatives aimed at substance abuse rehabilitation, vocational training and reentry assistance. Beefing up these programs will reduce recidivism and decrease future prison admissions and costs.

However, funding new prison facilities is a step in the wrong direction. The Department of Corrections has more than 140 facilities statewide, which when coupled with smart justice sentencing reforms aimed at nonviolent offenders, can readily accommodate the state prison population. Crime rates are at a thirty year low, and juvenile arrests and detentions have dropped dramatically. Our state budget needs to join other states embracing the opportunities presented by smart justice reforms.

ENVIRONMENT

Environmental highlights include:

- \$130 million for Everglades restoration, a \$60 million increase from the current year;
- \$70 million for Florida Forever land purchases, \$40 million of which would come from the future sale of state lands;
- Maintain funding of \$25 million for beach restoration;
- \$55 million for springs restoration, a \$45 million increase; and
- \$19 million for state park improvements.

TRANSPORTATION

The Governor recommends a \$9.6 billion budget for the Department of Transportation, including \$8.8 billion to support the work program. This is an increase of \$136 million (1.6 percent). The Governor says the work program will support the retention or creation of 427,000 jobs.

The funding includes \$138.9 million for seaports, \$324.6 million for aviation and \$192.5 million for bridge repair and the replacement of 15 bridges around the state.

Florida TaxWatch applauds the increased commitment to transportation. Past Florida TaxWatch research has shown that quality infrastructure is vital to our state's economy, and transportation projects create jobs and give Floridians a positive return on their investment.

ECONOMIC DEVELOPMENT

A \$1.1 billion budget is proposed for the Department of Economic Opportunity. Highlights include:

- \$95 million for Flexible Funding for Economic Development Tools (includes incentive funding);
- \$3 million to establish and market a Florida statewide business brand;
- \$30 million for the Workforce State Training Program;
- \$1.5 million for international trade and export;
- \$3.2 million for space, defense and rural infrastructure projects;
- \$12 million for the Quick Response Training Program;
- \$89.3 million for affordable housing; and
- \$600,000 for the National Entrepreneur Center.

Additionally, the proposed budget follows the recommendation of the Florida TaxWatch study, Investing in Tourism, and allocates an historic \$100 million (a 36.5 million increase) to Visit Florida to support and expand Florida's tourism industry.

CONCLUSION

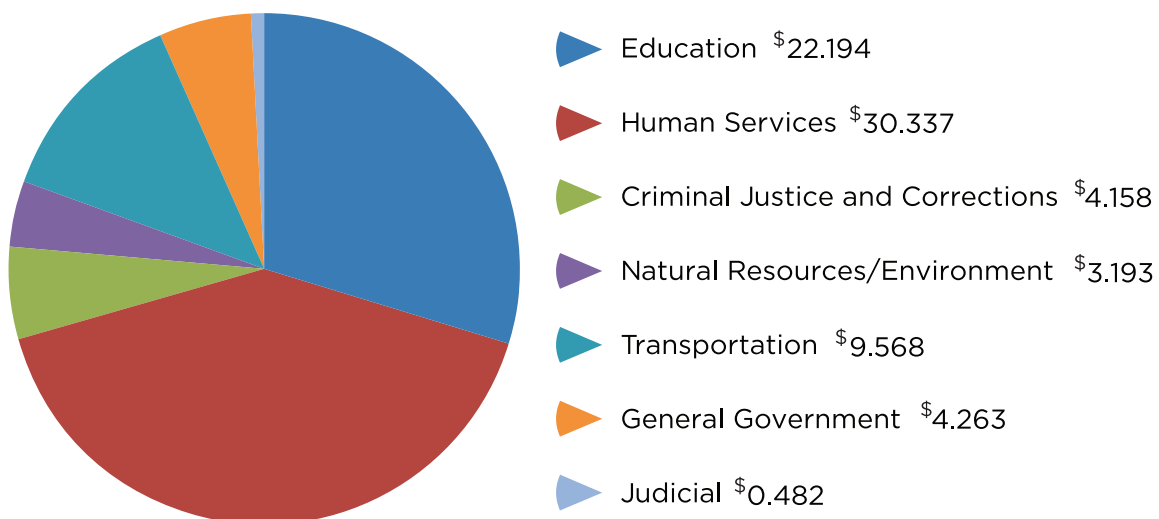
Florida TaxWatch commends Governor Scott for recommending that Florida hold the line on total state spending, returning money to Florida taxpayers, and maintaining healthy state reserves while still proposing increased spending for important state priorities such as education.

By continuing to look for efficiencies in government and reducing outstanding state debt, the Governor is promoting sound fiscal policies.

The budget contains numerous recommendations supported by past Florida TaxWatch research, including several recommendations of the TaxWatch Center for Government Efficiency.

Of course, the Governor's budget is only the beginning of the budget process. The Legislature will have its say and leaders may not embrace all of his tax cut proposals. There is broad support for the reduced vehicle registration fees, but reductions in business taxes may be a tougher sell this session. Florida TaxWatch will work to help ensure that cost savings and improvements in the way government does business continue to be a priority.

GOVERNOR'S FY2014-15 PROPOSED BUDGET (BILLIONS)



ABOUT FLORIDA TAXWATCH

As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the citizens of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

Florida TaxWatch is supported by voluntary, tax-deductible memberships and private grants, and does not accept government funding. Memberships provide a solid, lasting foundation that has enabled Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves for the last 33 years.

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