

## BUDGET SURPLUS OF \$846 MILLION EXPECTED FOR FY 2014-15

### *Good News, But Expectations Need to be Tempered*

For the second year in a row, the Florida Legislature will have a budget surplus to work with as it crafts the state's 2014-15 spending plan. After funding a continuation budget, including expected increases in current programs, it is anticipated that there will be \$845.7 million (including an allowance for \$1 billion in cash reserves) in General Revenue left over for new funding initiatives or tax cuts. However, this surplus may not be as big as it looks.

These estimates are contained in the constitutionally-required Long-Range Financial Outlook that was adopted today by the Legislative Budget Commission. This summer's round of state estimating conferences for revenue and expenditure needs 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. No shortfall exists through the three-year horizon of the Outlook.

The most recent General Revenue Estimating Conference, held August 9, 2013, increased estimates for FY 2012-13 and FY 2013-14 by a total of \$471.8 million. Along with healthy cash reserves left by the 2013 Legislature, these estimates result in \$1.8 billion in GR carrying forward into the FY 2014-15 budget. This number was adjusted to account for a \$42.4 million budget shortfall in the current year in the departments of Corrections and Juvenile Justice.

In addition, GR collections in FY 2014-15 are now estimated at \$27.333 billion, \$1.149 billion (4.4 percent) more than the current year. With these revenues and money carried forward, lawmakers will have \$29.277 billion in GR for the next budget.

There is \$26.353 billion in recurring expenditures in the current budget. Additionally, the Outlook includes a required repayment of \$214.5 million to the Budget Stabilization Fund and \$1 billion to be left in reserve. Add to this the forecasted growth in expenditures of \$863.9 million, and \$28.431 billion is needed to fund a continuation budget.

*More than sufficient revenue is expected to be available,  
leaving a surplus of \$845.7 million.*

## BUDGET OUTLOOK - FY 2014-15

General Revenue - \$ in millions

	RECURRING	NON-RECURRING	TOTAL
<b>2012-13 Base Budget</b>	\$ 26,353.1	\$ -	\$ 26,353.1
<b>Transfer - Budget Stabilization Fund</b>	\$ 0.0	\$ 214.5	\$ 214.5
<b>Increase - Critical Needs</b>	\$ 370.9	\$ 37.3	\$ 408.2
<b>Increase - High Priority Needs</b>	\$ 189.3	\$ 266.4	\$ 455.7
<b>Cash Reserves</b>	\$ 0.0	\$ 1,000.0	\$ 1,000.0
<b>Total Needed for Continuation Budget</b>	\$ 26,913.3	\$ 1,518.2	\$ 28,431.5
<b>Available General Revenue</b>	\$ 27,310.0	\$ 1,967.2	\$ 29,277.2
<b>Balance</b>	\$ 396.7	\$ 449.0	\$ 845.7

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. Expected increases in Medicaid funding make up 74 percent of these new “critical needs.” ***High Priority Needs*** are historically funded issues that are typically viewed as “must fund” in normal budget years. Adding these two categories to the recurring expenditures in the current budget comprises what can be thought of as a continuation budget. New initiatives and funding increases above what is required are not included. For example, the cost of funding additional students is included but an increase to per student funding is not.

The components of the \$863.9 million in increased GR spending needs are (by budget area):

- \$486.8 million for Health and Human Services, mostly from Medicaid increases;
- \$27.0 million for Education;
- \$49.2 million in Transportation and Economic Development;
- \$86.3 million for Natural Resources;
- \$112.2 million for Criminal Justice;
- \$30.0 million for General Government; and
- \$72.4 million for Administered Funds (Statewide Issues)

**Health & Human Services** – \$401 million is provided for increased Medicaid GR expenditures, mostly for a 5.9 percent increase in caseloads and \$10.3 million for Medicaid Waiver slots for the elderly and for individuals with brain and spinal cord injuries. Other needs include \$50.8 million for Children and Family Services to restore non-recurring funding for things such as adoption subsidies, Healthy Families, and community-based care; \$17.3 million for TANF-related programs; and \$7.9 million for technology improvements.

**Education** – \$257.8 million is provided to maintain per-student funding in K-12 enrollment. Since the Outlook assumes the same millage rate for Required Local Effort property taxes, increasing property values would bring in more revenue. This increased local contribution reduces the amount of state money needed to maintain funding. Additional available dollars in the Educational Enhancement (Lottery) Trust Fund and the State School Trust Fund are also assumed to reduce needed GR funding. Decreased enrollment in Voluntary Pre-K will slightly reduce needed GR for that program. In higher education, \$30.4 million is provided for workload increases in colleges and universities, based on the average increase over the last four years; \$18.7 million is needed for operational costs for newly-opened facilities; and \$92.2 million in GR is provided for construction projects. This assumes that the Legislature's current practice of using GR to supplement insufficient funds in the Public Education Capital Outlay (PECO) Trust Fund will continue.

**Transportation and Economic Development** – 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: \$13.5 million for the state match for federal FEMA disaster funding. High priority funding includes economic development (\$8.2 million), the Department of State's library, cultural, historical and election needs (\$14.3 million), and National Guard Armories and Military Affairs (\$13.2 million).

**Natural Resources** – Although there are no additional critical needs identified in Natural Resources in the Outlook, the high-priority needs of Everglades restoration (\$14.9 million), environmental land acquisition and restoration (\$5.3 million), beach restoration (\$11.9 million), and other environmental, water, and agriculture programs (\$52.1 million), are included. Funding is based on the average of the last four years.

**Criminal Justice** – After five years of relatively flat prison populations, the number of inmates is expected to increase significantly over the next five years. \$46.8 million is included to cover the expected increase in prison population, and due to a current surplus of beds, no additional facilities are anticipated. \$62.4 million is included for juvenile justice programs, including replacing the loss of some federal funding.

**General Government** – State law requires the Legislature to provide money to fiscally-constrained counties to offset property tax reductions arising from two constitutional amendments (\$23.5 million).

**Administered Funds (Statewide Issues)** – Increases in state employee health insurance benefits will cost an additional \$51.4 million and another \$20.7 million is needed for maintenance and repair of state buildings.

## PROJECTED SURPLUS MAY NOT STRETCH THAT FAR

First, these are only estimates. It should be noted that two years ago, the budget outlook anticipated no shortfall for 2012-13, but subsequent reductions in revenue estimates led to a \$1.2 billion shortfall for the Legislature to deal with. The state's estimators will meet two more times before the 2014 Session is over and while the next six months should not be as volatile as two years ago, estimates do change.

There are some caveats to the good news about an anticipated surplus. The Outlook highlights a number of risks to the estimates, including economic fluctuations, natural disasters, lawsuits against the state and the effects of the federal Patient Protection and Affordable Care Act (both positive and negative).

More than half of the \$846 million surplus (\$449 million) represents non-recurring revenues, leaving only \$397 million for recurring programs. In general, non-recurring revenue should not be spent on recurring expenses or ongoing tax reductions. While the Outlook forecasts no shortfalls for the next three years, if the Legislature were to spend all \$846 million on recurring expenses, a shortfall of \$265 million in FY 2015-16 would result.

The Outlook provides for a \$1 billion GR (cash) reserve. However, there is sentiment in the Legislature that a higher level of reserves is needed. Last year, the budget left \$1.5 billion in GR reserves (which grew to \$1.65 billion after the Governor's vetoes). A similar level of reserves next year would take most of the surplus.

The Outlook also does not assume that any state funds will be used to replace federal funds reduced by the Sequester. It also does not include any community-based initiatives (member projects) of which there are likely to be many.

The Governor has proposed reducing taxes by \$500 million, and the Legislature will surely attempt to provide an increase in per-student funding and other program enhancements. To achieve these laudable goals, Florida TaxWatch recommends that the Legislature consider this another tight budget year and continue to look for ways to reduce the cost of the current budget, such as the cost-savings recommendations published by Florida TaxWatch throughout the year. We also encourage the Senate to continue with the intensive budget review process it began last session, to ensure that every item in the base budget still deserves to be there.

For more information, see the Long-Range Financial Outlook [here](#).

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The findings in this *Budget Watch* are based on the data and sources referenced. Florida TaxWatch research is conducted with every reasonable attempt to verify the accuracy and reliability of the data, and the calculations and assumptions made herein. Please feel free to contact us if you feel that this paper is factually inaccurate.

106 N. Bronough St., Tallahassee, FL 32301 o: 850.222.5052 f: 850.222.7476  
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