

BUDGET WATCH



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The Governor's FY 2004-05 Budget Recommendations: Rising Medicaid Costs and Class Size Reduction Lead to \$1.4 Billion Increase

The Governor's proposed state budget for fiscal year 2004-05 contains some good news for Florida citizens. However—as is typical with government budgets—the news is tempered somewhat by the details.

The Governor's recommended budget totals \$55.4 billion—a \$1.4 billion (2.6%) increase over last year's spending. This total includes tax cuts of \$139 million and a budget stabilization fund balance of \$999.2 million and a working capital fund of \$193.6 million. The budget is largely funded by a \$700 million increase in general revenue, money from last year and another round of trust fund transfers.

It is remarkable that Florida's budget continues to increase, given the national recession, a continued slow economy and even a series of tax cuts. While the 2.6% increase may be modest—it is below both personal income growth (5.6%) and combined population and inflation growth (3.5%)—many states are facing budget cuts and tax increases.

Florida's tax system has continued to perform well in slow economic times. General revenue collections are forecasted to grow 12.5% from FY 2001 to FY 2005. During the recession from 2001-2003, Florida's revenues grew 4.2%, the seventh largest growth in the nation. Florida was the only major state to avoid a drop in revenues, a fate that befell 31 other states.

However, the \$1.4 billion increase will not provide a raft of major enhancements and new initiatives. When you consider that Florida's Medicaid budget is going up \$1.1 billion, you realize there is not much left. The Medicaid budget now stands at an astounding \$13.8 billion—**nearly one-fourth of the entire state budget**. And Medicaid costs are rising at an average of 11.7% a year.

The same can be said for the education budget (see *Highlights* section). The proposed budget provides almost \$800 million in additional state funding. However, most of the increase is due to \$508 million in additional funds to comply with the class-size reduction amendment.

In total, the Governor proposes spending \$976 million on class size (In releasing his budget recommendations, the Governor reiterated his call for repealing the class size amendment, as well as the high-speed rail amendment.).

The Governor's budget also continues the dangerous trend of using non-recurring revenue to fund recurring expenses. There is not enough recurring revenue to fund the recurring programs in the proposed budget. The state has \$2.9 billion in non-recurring funds to use in FY 2004-05, mostly money left over from last year and \$600 million in trust fund transfers. Only \$1.1 billion would be spent on non-recurring programs, and **the proposed budget uses \$1.6 billion of this total non-recurring money to fund recurring expenditures.** This money will not be there next year, but the programs will.

Budget Summary

Below is a summary of the Governor's budget recommendations (see accompanying chart at the end of the report for a detailed comparison between current year estimated expenditures and the Governor's budget recommendations by policy area):

The Governor's 2004-2005 Budget Recommendations

- ◆ General Revenue recommendations total \$23.582 billion, an increase of almost \$2.0 billion (9.1%) over the estimated 2003-2004 spending level of \$21.614 billion.
- ◆ Trust Fund recommendations total \$ 31.781 billion, a decrease of \$547 million (-1.7%) from the estimated 2003-04 spending level of \$32.328 billion.
- ◆ Total recommendation (all funds) is \$55.363 billion, an increase of \$1.421 billion (2.6%) over the estimated 2003-2004 spending level of \$53.942 billion.
- ◆ Recommended state government staffing level totals 115,972 full-time equivalent (FTE) positions for 2004-2005, a net decrease of 825 positions (-0.7%).

Highlights

Public Schools. The budget provides \$854 million additional funds for K-12 education, bringing the total to \$11.2 billion. Increased local funding would bring the total potential increase to over a billion dollars. The effect of this significant increase is lessened by the fact that it includes \$508 million for reducing class size. It also appears that part of the increase is due to a budget shift, not actual new dollars. When you factor in thousands of new students, there is little left for true enhancements.

It does provide a \$23.2 million increase for school reading programs, \$16.9 million more for the School Recognition Program and \$11.6 million new spending for instructional materials. It also contains \$9.6 million to train childcare workers for the state's new universal pre-K program.

The budget does not include teacher raises, but the Governor does recommend \$250 million be reallocated from class size reduction to teacher compensation should that constitutional amendment be repealed. The Governor does fully fund the Excellent Teaching Program (\$54 million), which gives bonuses to teachers who earn national certification.

State Universities. The proposed budget provides \$152 million in additional funds, \$55 million from state appropriations. The rest would come from tuition increases of 7.5% for in-state undergrads and 12.5% for graduate and out-of-state students.

Increased enrollment is funded at \$50 million, and \$72.7 million is earmarked for salary and benefit increases. The budget also includes \$20 million to create new "Centers of Excellence," \$5.3 million to fund the development of the Florida Agricultural and Mechanical University law school in Orlando and the Florida State University medical school in Tallahassee, a \$12 million increase in financial aid and \$25 million to match private donations.

Community Colleges. The proposed budget provides \$108 million in additional funds, \$90 million from state appropriations. The rest would come from a tuition increase of 5%. The money will fund a 6.1% increase in enrollment and provide \$30.8 million in challenge grants.

Health and Human Services. Perhaps the biggest negative reaction to the Governor's proposal concerned his \$29.7 million increase in funding for KidCare, the subsidized health care program for children. This would serve an additional 10,500 children, but there is a waiting list of 107,000. Last week, democratic legislators tried unsuccessfully to call a special session to address this issue. After the Governor released his budget, he proposed an additional \$30 million in state money and announced that Florida has secured \$132.6 million more from the federal government for the program. There are currently 1.6 million children in KidCare.

In addition to the aforementioned \$1.1 billion increase in Medicaid spending, the budget includes \$47 million for child welfare, \$43 million more for the developmentally disabled, \$21 million for adoption services and \$16 million for the restoration of the anti-smoking program.

Public Safety. The Department of Corrections would receive \$114 million in increased spending, including \$100 million for new prison construction and land acquisition. The budget includes \$223 million to implement Article V, the voter-approved court funding formula.

Transportation. The Department of Transportation proposed budget is \$6.5 billion, an increase of \$277 million. It includes \$2.2 billion in road building contracts. The budget

proposes to build 347 new lane miles, rehabilitate 3,170 existing miles and replace 21 bridges.

Environment. The budget provides \$100 million for Everglades restoration, \$40 million for Florida Forever, \$15 million for energy initiatives, \$178 million for local water projects and \$10.9 million for manatee protection.

Economic Development. The Governor proposes \$129 million for economic development, including \$58.8 for incentives, \$11 million for Enterprise Florida and \$21.7 to promote tourism.

Tax Cuts. The Governor proposes to continue the phase-out of the intangibles tax on stocks and bonds, a long-standing recommendation of Florida TaxWatch. He wants to reduce the tax rate from 1 mill to .67 mills, which would remove 22,000 taxpayers from the rolls and cost \$91 million. He also recommends continuing the Sales Tax Holiday, an idea that is popular with taxpayers and businesses. He is calling for a nine-day holiday on clothing and schools supplies in the summer before school starts. In addition, he wants a month-long holiday on all books in May, as students begin their summer vacations and summer reading programs. These holidays are estimated to cost \$48 million.

State Personnel. The budget contains 115,972 state employees, 825 fewer positions than last year. This reduction is due to outsourcing. The Department of Children and Families proposed 1,500 fewer positions, largely from outsourcing eligibility determination services and the shifting of programs such as foster care to a local community based care model. Outsourcing efforts in the Departments of Transportation and Management Services resulted in significant position reductions. As for bureaucracy reductions, the Governor proposes eliminating 269 positions.

Budget Will Surely Change

The Governor's budget will now have to make its long, arduous journey through the Florida Legislature, and changes will be made. Florida TaxWatch hopes that legislators resist the lure of funding "turkeys," or special local projects. The Governor's budget already has its share of local projects, including an Alzheimer's center at the University of South Florida and a research facility at Florida State University, items important to the House Speaker and Senate President. The Governor has acknowledged that he included the projects in the hope of making the budget negotiations "smooth going." Legislators must remember that when local projects are added to the budget, that leaves less money for programs with statewide impact.

The Legislature also must start curbing the use of non-recurring revenue for recurring programs. With spending pressures including Medicaid increases, class size reduction and universal pre-k looming, funding ongoing programs with money that will not be there next year sets the stage for a budget meltdown.

Needless to say, the lure of spending the \$2.9 billion in non-recurring funds that are available for the next budget is strong. In a press release commenting on the Governor's budget, the Senate President said that, while he is concerned about budget cuts and the use of non-recurring revenue, he is "not too sure that we will be able to do any better."

2004-05 Governor's Budget Recommendations by Policy Area

Recommendations Compared to Current Year Budget

| | Governor's Recommendations 2004-05 | | Current Year Budget 2003-04 | | Difference | |
|-----------------------------------|--|----------------|-----------------------------------|----------------|------------------|-------------|
| | Million \$ | Positions | Million \$ | Positions | Million \$ | Positions |
| Education | 15,541.5 | 1,396 | 14,766.2 | 1,405 | 775.3 | -9 |
| Economic Opportunities | 7,251.5 | 7,109 | 7,326.0 | 7,394 | -74.5 | -285 |
| Public Protection | 5,274.5 | 54,425 | 4,849.7 | 53,915 | 424.8 | 510 |
| Health and Human Services | 19,948.6 | 26,914 | 19,094.0 | 28,323 | 854.6 | -1,409 |
| Natural Resources and Environment | 1,942.0 | 4,837 | 1,853.1 | 4,827 | 88.9 | 10 |
| State Courts | 346.7 | 3,575 | 243.3 | 2,417 | 103.4 | 1,158 |
| Governmental Operations | 3,364.3 | 17,716 | 3,402.0 | 18,516 | -37.7 | -800 |
| Other Fixed Capital Outlay | 1,693.7 | 0 | 2,407.4 | 0 | -713.7 | 0 |
| Total | \$55,362.9 | 115,972 | \$53,941.7 | 116,797 | \$1,421.2 | -825 |

Source: Executive Office of the Governor, January 2004.

2004-05 Governor's Education Budget Recommendations

Recommendations Compared to Current Year Budget

| | Governor's Recommendations 2004-05 | | Current Year Budget 2003-04 | | Difference | |
|-----------------------------------|--|--------------|-----------------------------------|--------------|----------------|------------|
| | Million \$ | Positions | Million \$ | Positions | Million \$ | Positions |
| Public Schools | 11,230.3 | 0 | 10,376.1 | 0 | 854.2 | 0 |
| State University System | 2,042.9 | 0 | 1,988.0 | 0 | 54.9 | 0 |
| Community Colleges | 1,016.9 | 0 | 927.0 | 0 | 89.9 | 0 |
| Student Financial Assistance | 379.4 | 0 | 336.8 | 0 | 42.6 | 0 |
| Private Colleges and Universities | 116.0 | 0 | 116.5 | 0 | -0.5 | 0 |
| Workforce Development | 501.8 | 0 | 498.0 | 0 | 3.8 | 0 |
| State Board of Education | 205.6 | 1,284 | 149.4 | 828 | 56.2 | 456 |
| Projects, Contract & Grants* | 0.0 | 0 | 322.1 | 471 | -322.1 | -471 |
| Total | \$15,492.9 | 1,284 | \$14,713.8 | 1,299 | \$779.0 | -15 |

*note: in FY 2004-05, the appropriations and positions for Projects, Contracts & Grants were transferred to the appropriate entity within the Department of Education.

Source: Executive Office of the Governor, January 2004.

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About Florida TaxWatch

Florida TaxWatch is the only statewide organization entirely devoted to protecting and promoting the political and economic freedoms of Floridians as well as the economic prosperity of our state. Since its inception in 1979, Florida TaxWatch has become widely recognized as the watchdog of citizens' hard-earned tax dollars. The nationally distributed *City and State* magazine (now *Governing* magazine) published a poll of the nation's statewide taxpayer research centers. Based on this poll, the publication cited Florida TaxWatch as one of the six most influential and respected government watchdogs and taxpayer research institutes in the nation.

In recent years, news stories about Florida TaxWatch have run in all Florida newspapers, *The Wall Street Journal*, *The New York Times*, *The Washington Post* and *Fortune* magazine. In addition, Florida TaxWatch has been featured on the prestigious *MacNeil/Lehrer Newshour*.

Florida TaxWatch is a private, non-profit, non-partisan research institute supported by voluntary, tax-deductible membership contributions and philanthropic foundation grants. Membership is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, corporations, professional firms, labor unions, associations, individuals and philanthropic foundations -- representing a wide spectrum of Florida's citizens.

Florida TaxWatch's empirically sound research products recommend productivity enhancements and explain statewide impact of economic and tax and spend policies and practices. Without lobbying, Florida TaxWatch has worked diligently and effectively to build government efficiency and promote responsible, cost-effective improvements that add value and benefit taxpayers. This diligence has yielded impressive results: through the years, three-fourths of TaxWatch's cost-saving recommendations have been implemented, saving taxpayers over \$6.2 billion (according to an independent assessment by Florida State University). That translates to approximately \$1,067 in added value for every Florida family.

With your help, we will continue our diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and that government agencies are more responsive and productive in the use of your hard-earned tax dollars.

The Florida TaxWatch Board of Trustees is responsible for the general direction and oversight of the research institute and safeguarding the independence of the organization's work. In his capacity as chief executive officer, the president is responsible for formulating and coordinating policies, projects, publications and selecting the professional staff. As an independent research institute and taxpayer watchdog, the research findings, conclusions and recommendations of Florida TaxWatch do not necessarily reflect the view of its members, staff or distinguished Board of Trustees.



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