

BUDGET WATCH

Florida
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October 31, 1990

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ISSUE NO. 4

FLORIDA SPENDING AND TAXING: THE DECADE OF THE EIGHTIES

State Spending Triples in Ten Years

The decade of the eighties has seen the state budget more than triple in size from \$8.56 billion in FY 1981 to \$27.37 billion in FY 1991 (Figure 1). This translates to an average growth rate of 12.3% per year. To pay for this increased spending, state taxes have risen from \$6.604 billion ten years ago to \$16.089 billion today, an average increase of 9.3%. An additional 36,145 state employees have been added to the state payroll, increasing the number of full-time state employees to 136,730.

How can the budget grow 12% and taxes only 9%? Good question. Taxes only fund 59% of the state budget. Another 29% comes from federal aid, other intergovernmental aid, and nontax revenues such as lottery proceeds and interest on state funds. These items bring total revenues to over \$24.1 billion. The difference between this amount and the \$27.37 billion total budget figure (about 12%) consists of proceeds from the sale of bonds and double counting of revenues deposited in one fund and transferred to another fund to be appropriated for state spending. A state budget that reflected actual spending is an idea long overdue.

Spending for every man, woman, and child in Florida rose from \$858 to \$2048 in FY 1991, an average increase of 9.1%. Real state spending per person increased 54.5% (that's after controlling for the effects of population growth and inflation) from \$858 to \$1326 (1981 dollars), an average annual gain of 4.4% (Figure 2).

Key Findings

- The state budget has more than tripled in size since FY 1981, reaching \$27.4 billion in FY 1991.
- Per capita state spending has risen from \$858 in FY 1981 to \$2,048 in FY 1991.
- Education, Social Services and General Government have accounted for 39%, 20% and 19% of total state appropriations during the 1980s.
- Floridians' per capita state taxes have more than doubled since FY 1981, rising from \$562 to \$1,204.
- In FY 1991, 6.4% of Florida personal income went to state taxes. This is up from 5.4% in 1981.
- State taxes have been increased by \$2.8 billion on an annualized basis since FY 1987. Over this four year period, Floridians have paid a total of \$6.5 billion from tax hikes, \$503 per person.
- These post-1987 tax hikes, along with other non-tax revenue raisers such as the lottery, will bring in over \$38.4 billion in additional state revenue through 1997. The State Comprehensive Plan report called for \$35.9 billion over this period.
- Some reasons for the phenomenal spending growth since 1981: population is up 34%; school enrollment is up by over half a million children, Medicaid caseloads have almost doubled; and prison admissions have quadrupled.

Where Have All the Dollars Gone?

Growth in appropriations for Education, Social Services and General Government programs generated most (80%) of the ten-year surge in spending. Figures 3 and 4 present a snapshot of the share of state spending by program now and ten years ago.

Education Holds on to First Place

Education spending, has historically received more funds than any other program area, despite a declining share of the total pie. Education expenditures totaled \$3.6 billion and made up 42% of the state budget in FY 1981. This year Florida is spending \$9.5 billion on education, or about 35% of the state budget. Increased Education spending partly reflects the increased workload from a great influx of students into our community colleges, universities and public schools. In the past ten years, enrollment in Florida's education system has grown by 518,121 an average annual increase of 2.5% (Figure 5). Dollars per student have doubled to \$4,043 from \$1944 per student.

Social Services Moves Into Second Place

Social Services spending, primarily programs run by the Department of Health and Rehabilitative Services, has overtaken the number two spot. It accounted for \$1.6 billion or 19% of the state budget pie in 1980-81. This year social services will receive \$7.5 billion or 27% of Florida's budget dollars. It accounts for nearly one-third of the phenomenal ten-year growth in state spending. Contributing to this growth was a near doubling of the Medicaid caseloads. HRS is currently handling 852,636 more Medicaid cases than it did ten years ago, an average growth of over 6.4% per year. (Figure 5).

General Government spending, the third largest category, has also grown significantly. General Government, for the most part, consists of seventeen state agencies providing central services rather than programs: centralized payroll, accounting, personnel system, revenue collection, building operation and maintenance, and regulatory activities, etc. General Government spending is \$3.1 billion higher or 165% more than ten years ago. In FY 1981 Florida spent \$1.9 billion or 22% of its budget to support General Government functions. The current level is \$5 billion which accounts for only 18% of the total budget pie.

Criminal Justice expenditures were also boosted considerably by \$890 million or 383%. Criminal Justice spending, \$231 million or 2.7% of the 1980-81 budget, was increased to \$1.1 billion or 4.1% of total spending. Clearly, the shocking upswing in admissions and the prison population has been the primary catalyst for this increase. During this period, the prison population increased from 21,579 to 50,836, an increase of 136%. The annual growth rate for prison population has averaged just over 8.9% during this time. (Figure 5).

Spending by the Legislative Branch, while remaining a very small portion of the total budget, has grown considerably over the decade. In 1980-81, the Legislature spent \$41.7 million. By 1990-91, that figure had more than tripled to \$141.5 million. Appropriations for the Legislature, the legislative staff and the Auditor General comprise most of the budget of the Legislative Branch for the decade. The Legislature spent \$27.5 million, or 66% of the total, while the Auditor General accounted for another \$13.4 million or, 32% of spending in 1980-81. By 1990-91, the Legislature will spend \$94.5 million and the Auditor General will spend \$40.4 million, 67% and 29% of the total Legislative budget, respectively.

NOTE: The major program areas are defined as follows:

AGRICULTURE - The Departments of Agriculture and Consumer Services, and Citrus

CRIMINAL JUSTICE - The Departments of Corrections, Law Enforcement, and the Parole Commission

EDUCATION - The Department of Education

ENVIRONMENT - The Departments of Environmental Regulation, and Natural Resources, and the Game and Fresh Water Fish Commission

GENERAL GOVERNMENT: Office of the Governor, Public Service Commission, the Commission on Ethics; the Departments of Administration, Banking and Finance, Business Regulation, Commerce, Community Affairs, General Services, Highway Safety and Motor Vehicles, Insurance and Treasurer, Labor and Employment Security, Legal Affairs, Lottery, Military Affairs, Professional Regulation, Revenue, State; and Retirement Benefits and Administered Funds.

JUDICIAL BRANCH - The state court system

LEGISLATIVE BRANCH - The Legislature, legislative staff, and the Auditor General

SOCIAL SERVICES - The Departments of Health and Rehabilitative Services, and Veteran's Affairs

TRANSPORTATION - The Department of Transportation

State Taxes Per Floridian Have More Than Doubled Since 1981

State taxes per Floridian are \$1,204, more than twice the average amount of \$562 paid per person in FY 1981. This 114% increase is tempered somewhat by inflation, but the real increase in Floridians' tax burden is still quite substantial. After controlling for inflation, taxes per person have grown 38.6% since FY 1981, rising from \$562 to \$779 (Figure 6). 1984 saw the biggest increase in per capita taxes. The first full year of sales tax (from 4% to 5%) and gas tax (1.7 cents) increases, as well as corporate income and alcoholic beverage tax hikes, boosted taxes from \$654 to \$769 per person. The services\6th penny sales tax year of 1988 and the numerous tax hikes of the last legislative session were also big contributors to growing per capita taxes.

Figure 9 shows that during this time growth in Florida taxes has also outpaced growth in Floridians' personal income, as well as the combined effects of population and inflation. Total state taxes are up 187%, personal income is up 142% and the economic growth rate (population times inflation) is up 107%. Taxes are taking a bigger and bigger bite out of Floridians' pay checks. In 1981, 5.4% of personal income went to state taxes. In 1991, that portion has risen to 6.4%.

General Revenue Declining; Trust Funds Proliferating

Figures 7 and 8 show how state revenue has changed over the decade of the eighties. General revenue, the pot of money for funding major state programs except transportation, is no longer more than half of the state's direct revenue. The general revenue share in FY 1981 of 52% has declined to 45% in FY 1991. The creation of the \$500 million State Infrastructure Fund in 1988 took part of general revenue's share.

As more and more trust funds have been created, the portion of total revenue going into them has risen from 14% in 1981 to one-fourth (25%) in 1991. Of the major trust funds, transportation funds now account for 3.7% of all revenue, up slightly from 3.5% in 1981, but down from its peak of 4.9% in 1984. The influx of lottery dollars gives education trust funds a larger portion of the total. The lottery took in \$323 million in net (less prizes) revenue during FY 1988, its first year. Net lottery revenue peaked at \$1.4 billion in FY 1990 and is just over \$1 billion for FY 1991. But the big impact has come from the numerous smaller trust funds. Dollars in these funds have increased 8-fold since 1981.

Shrinking federal aid programs have reduced the portion of Florida's revenue that comes from Uncle Sam from 25% to 19%. In this year's budget, \$4.59 billion comes from federal government coffers. Likewise, state revenue shared with local governments has declined slightly from 10% to 9% of total revenues. The state will transfer \$2.09 billion to local governments this fiscal year.

Reliance on Sales Tax Increasing

The major change in the makeup of Florida's tax base is the ever increasing importance of the sales tax. Sales taxes accounted for 45% of total taxes in FY 1981. This year sales taxes will bring in 54% percent of total taxes. Two sales tax hikes during the 1980s, upping the state tax rate from 4% to 6%, are primarily responsible for the growth of the sales tax from \$2.5 billion to \$8.75 billion, an average increase of 13.2%.

Business taxes have grown from \$920 million to \$2.1 billion. Its share of total taxes has declined slightly from 16% to 13%, reflecting fewer rate changes. Taxes in the financial category also grew substantially during the decade from \$438 million to \$1.5 billion. As a result its share increased from 9% to 10%.

Growth in alcoholic beverage and tobacco taxes has been relatively weak over the decade averaging only 6.5% annual growth despite several rate and base changes. Collections grew from \$581 million to \$1.1 billion over the decade; however, these taxes have declined in relative importance bringing in only 7% of total taxes this year as compared to a FY 1981 share of 10%. Generally this drop reflects the declining per capita consumption of these two commodities.

Revenue Increases Already in Place to Fund the Estimated Need in the 1987 State Comprehensive Plan Committee Report.

In October 1988, Florida TaxWatch released a report pointing to the need for budget reform and promoting the passage of a constitutional amendment creating the Taxation and Budget Reform Commission. (The amendment was approved by over 60% of the voters in November, 1988). The report pointed out that, in the two legislative sessions following the release of the State Comprehensive Plan Committee's final report, enough tax and revenue increases were passed to fund 70% of the state's \$35.9 billion portion of the State Plan report. TaxWatch also observed that there was no evidence that a significant portion, let alone 70%, of the needs identified in the Plan were met or reduced.

Ten Year Revenue Increase Tops \$38 Billion

After the tax hikes of the 1990 Session, TaxWatch has again examined the state's added revenue in relation to the State Comprehensive Plan. It has been only four years since the State Plan report and enough added revenue mechanisms have already been put in place to raise more state revenue than called for by the report. The state has increased taxes and other revenues enough since 1987 to bring in an additional \$38.4 billion from FY 1988 through FY 1997, compared to the \$35.9 billion ten year need estimate in the State Plan report.

This is especially interesting since at the time of the State Plan report's release, many doubted if the necessary money could or would be raised. Floridians were staggered by the price tag of \$53.9 billion over ten years. The state government share of \$35.9 billion included not only infrastructure requirements, but also projected unmet service needs and state operations. The \$18 billion local share included only infrastructure needs.

It must be noted that this estimate of needs probably does not reflect current trends and conditions; however, no update is available. The \$53.9 billion cost estimate may in fact be low. Figure 5 does show that the prison population, education enrollments, and Medicaid caseloads are up. But the point is, with all this new money, is the State Plan being addressed. Are things getting better or have they gotten worse for Florida's taxpaying citizens? No one knows. Results reporting and accountability are absent from the spending and taxing equation.

Sales Tax Remains Tax Workhorse

The biggest increase has been in the state's sales tax. The ill-fated services tax and its replacement - the 6th penny of sales tax - will bring in an additional \$15.6 billion in state revenue through FY 1997. The lottery will supply \$9.7 billion more, \$8.1 billion for education. And the one revenue area that TaxWatch pointed out was being neglected in 1988 - transportation - was addressed last session. The new transportation taxes will bring in \$5 billion by FY 1997. Numerous other sources have also contributed: motor vehicle license tags, cigarette taxes, alcoholic beverage taxes, documentary stamps, intangible taxes, corporate income taxes and fees, gross receipts taxes and hunting and fishing licenses have all gone up.

Florida TaxWatch also looked specifically at the tax hikes since the 1987 State Plan. Figure 10 shows the effect of tax increases on tax collections from FY 1987 to FY 1991. Unlike the above numbers, this does not include lottery and other non-tax revenue raisers and does include the portion of state-enacted tax increases going to local governments. Tax increases have brought in \$6.5 billion over those four years. This translates to a \$2.8 billion increase to the tax base from 1987 to 1991. This means that taxes are \$209 more per person in 1991 than they would have been without any tax increases after FY 1987.

Major Revenue Hikes in Florida Since Release of the State Comprehensive Plan Report in February 1987

(\$ in millions)

<u>Revenue Source</u>	<u>Additional Revenue Through FY 1997</u>
Sales\Services Tax	\$14,240.7
Lottery (45% of total)	9,704.6
1990 Transportation Taxes	5,058.4
Documentary Stamp	1,515.9
Other Car & Driver Taxes	1,300.3
Alcoholic Drink Tax	1,216.6
Intangibles Tax	1,197.3
Gross Receipts Tax	1,120.2
Tobacco Tax	933.7
Corporate Taxes and Fees	789.1
Other (less tax cuts)	<u>1,349.1</u>
Total	\$38,425.9

State Funding called for in the State Comprehensive Plan Report \$35,915.0

Note: This table includes only the state portion, not local tax increases or local portion of state tax hikes.

Source: Florida TaxWatch, Inc., and the Florida Consensus Revenue Estimating Conference, October 1990.

Floridians Paid \$6.5 Billion in State Tax Increases Between FY 1988 and FY 1991

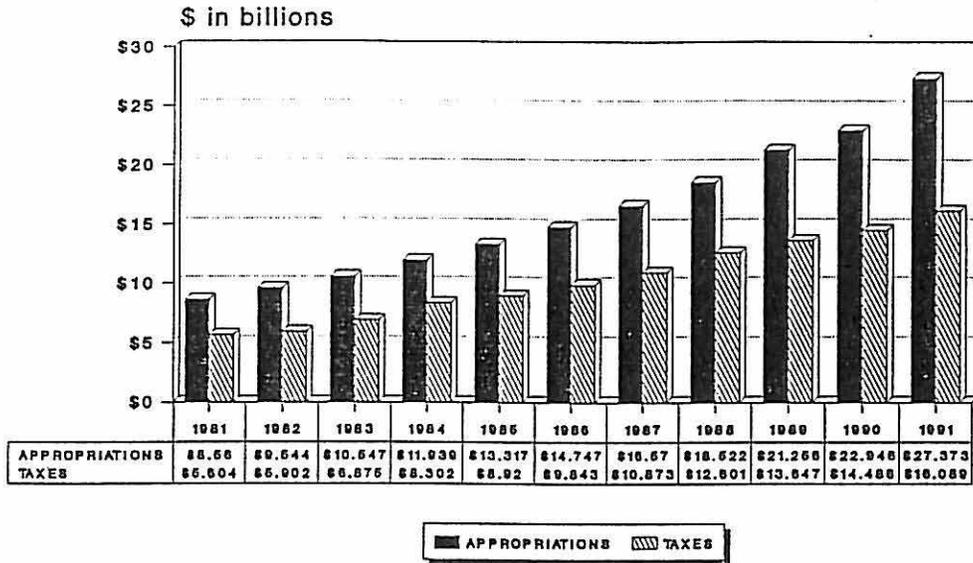
State Tax Increases in Florida

(\$ in millions)	1987-88	1988-89	1989-90	1990-91	Total
1987-88 Tax Increases					
Services\6th Cent Sales Tax	\$698.0	\$1,280.0	\$1,370.8	\$1,403.5	\$4,752.3
Corp Inc Tax & Filing Fees	48.6	46.2	47.7	51.5	194.0
Special Fuel Tax	18.0	0.1	0	0	18.1
Documentary Stamp Tax	23.2	26.9	25.7	27.8	103.6
MV Dealer Use Tax	2.7	3.0	3.1	3.2	12.0
Motor Vehicle Tag Fees	2.4	2.5	2.6	2.7	10.2
Total 1987-88	\$792.9	\$1,358.7	\$1,449.9	\$1,488.7	\$5,090.2
1988-89 Tax Increases					
Solid Waste Mgmt Act Fees		16.2	19.0	22.4	57.6
Pollutants Tax		8.2	9.6	8.6	26.4
Motor Vehicle Tag Fees		7.1	7.3	7.4	21.8
Corporate Annual Report Fee		4.0	3.8	4.2	12.0
Boat Registration		3.9	6.6	7.4	17.9
Total 1988-89		\$39.4	\$46.3	\$50.0	\$135.7
1989-90 Tax Increases					
Auto Registration			11.4	25.9	37.3
Hunting & Fishing			11.0	17.3	28.3
Rental Car Surcharge			9.5	17.1	26.6
Transient Rentals			5.7	10.0	15.7
Motor Vehicle Tag Fees			5.1	7.9	13.0
Estate Taxes			4.0	1.0	5.0
Tire Fees			2.0	2.2	4.2
Total 1989-90			\$48.7	\$81.4	\$130.1
1990-91 Tax Increases					
Transportation Taxes				384.2	384.2
Intangibles Tax				154.2	154.2
By the drink tax				140.5	140.5
Documentary Stamp Tax				131.8	131.8
Cigarette Tax Increase 9.9				131.0	131.0
Gross Receipts Tax				80.4	80.4
\$295 Motor Vehicle Impact Fee				55.4	55.4
Motor Vehicle Tag Fees				40.9	40.9
Corporate Filing Fees				23.4	23.4
Insurance Premium Tax				13.4	13.4
Recreational Fac. Sales Tax				6.9	6.9
Auto License Fees: Air Pollution				6.7	6.7
Sales Tax on Rental Cars				3.4	3.4
Total 1990-91				\$1,172.2	\$1,172.2
Total all years	\$792.9	\$1,398.1	\$1,544.9	\$2,792.3	\$6,528.2
Total State Taxation	\$12,600.5	\$13,647.0	\$14,485.5	\$16,089.2	\$56,822.2
% of collectns. due to tax increase	6.29%	10.24%	10.67%	17.36%	11.49%
Effective percentage Tax Increase	6.72%	11.41%	11.94%	21.00%	12.98%

Note: These taxes include only revenue raised from changes to the rate or base and include the local portion of state tax increases. They do not include growth monies from existing tax sources and rates. Excludes the following statewide tax increases: Insurance Premium Tax changes of FYs 1988, 1989 and 1990; and Mandated school property tax increases for Required Local Effort (\$741 million).

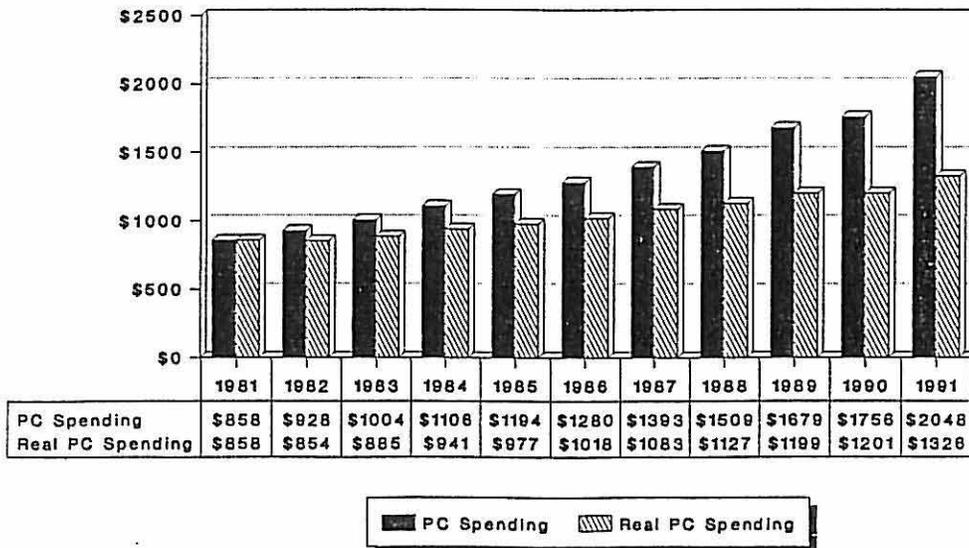
Source: Florida TaxWatch, Inc., *Florida's Fiscal Analysis and Brief*, and the Florida Consensus Estimating Conference, October 1990.

Figure 1
**Growth in Taxes and Appropriations
 1980-81 to 1990-91**



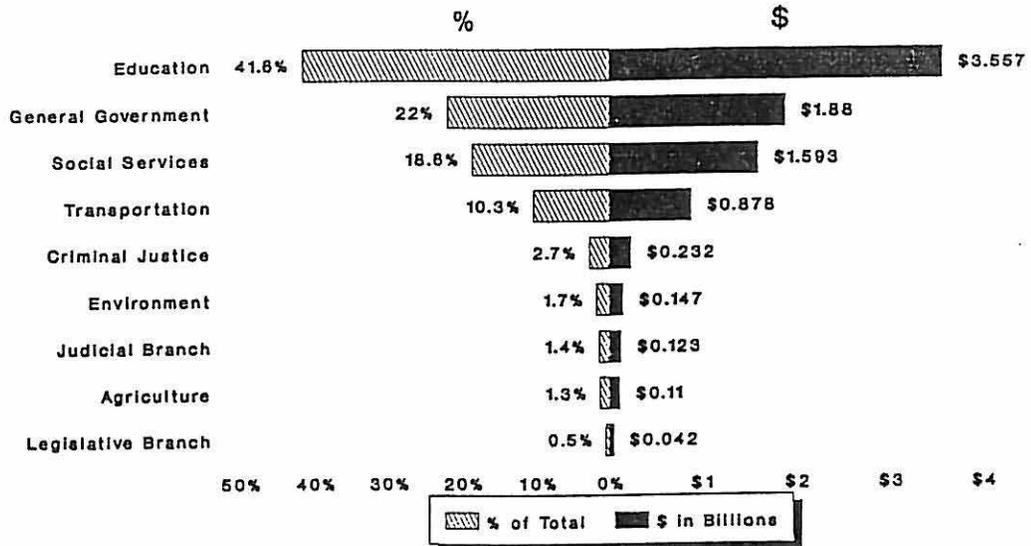
Source: Florida TaxWatch, Inc.,
 October, 1990

Figure 2
**Per Capita Spending vs. Real
 Per Capita Spending**



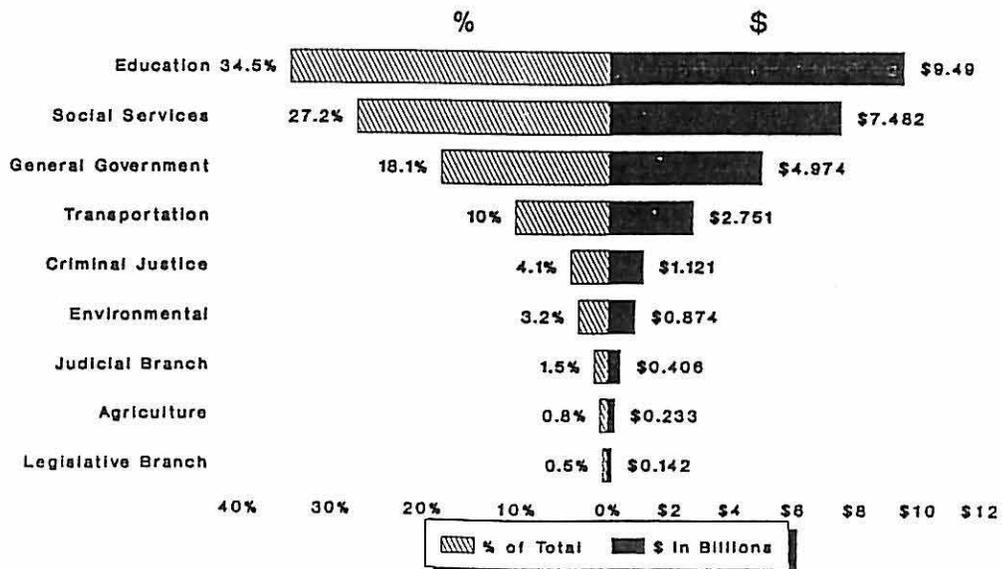
Source: Florida TaxWatch, Inc.,
 October 1990.

Figure 3
Major Program Appropriations
1980-81



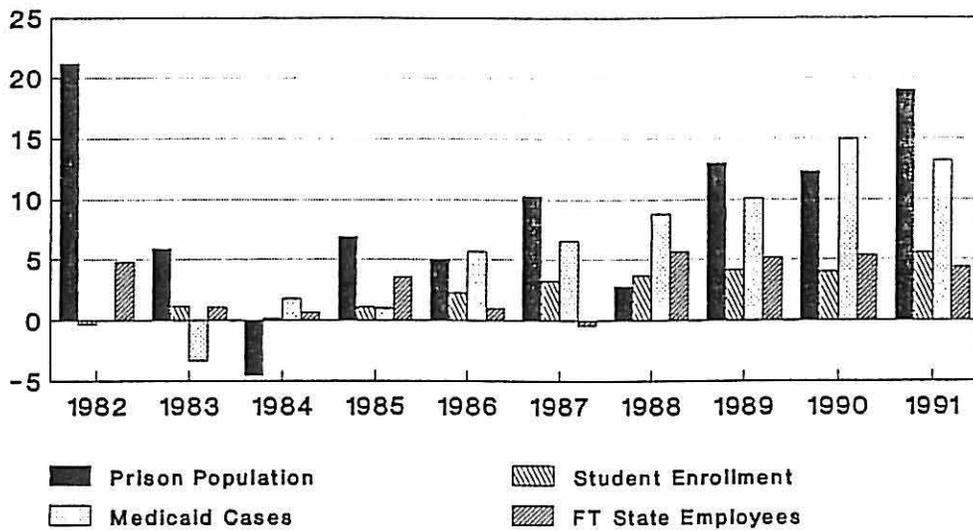
Source: Florida TaxWatch, Inc.,
October 1990.

Figure 4
Major Program Appropriations
1990-91



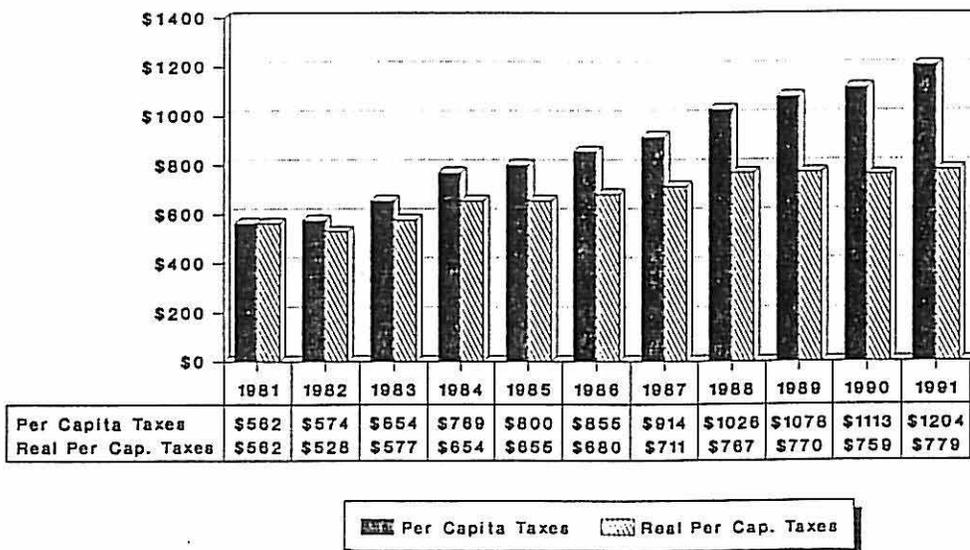
Source: Florida TaxWatch, Inc.,
October 1990.

Figure 5
Work Load Indicators
 Percent Change



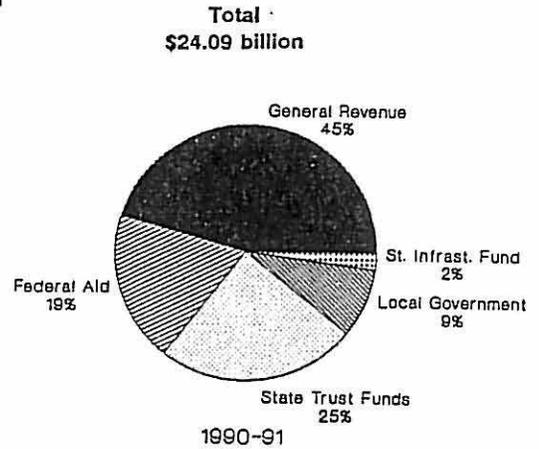
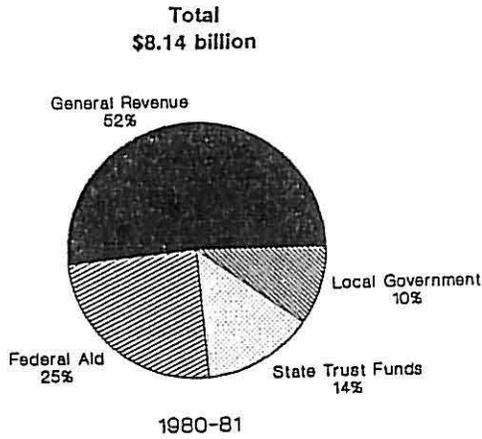
Source: Florida TaxWatch, Inc.,
 October 1990.

Figure 6
Per Capita Taxes vs. Real
Per Capita Taxes



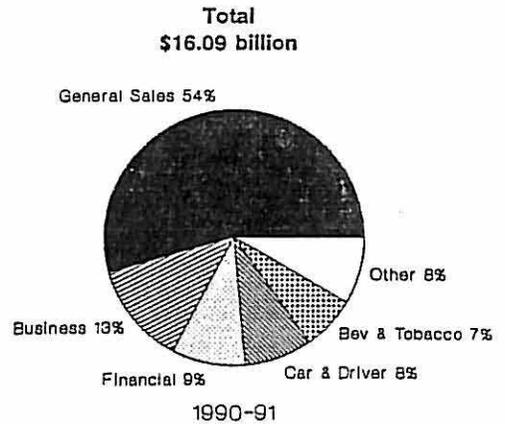
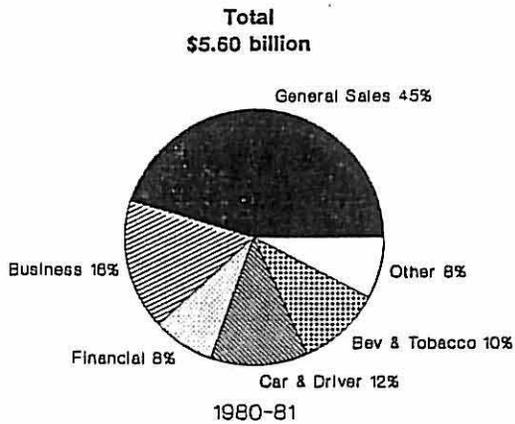
Source: Florida TaxWatch, Inc.,
 October 1990.

Figure 7
Receipts by Fund
FY 1981 vs. 1991



Source: Florida TaxWatch, Inc.,
 October 1990.

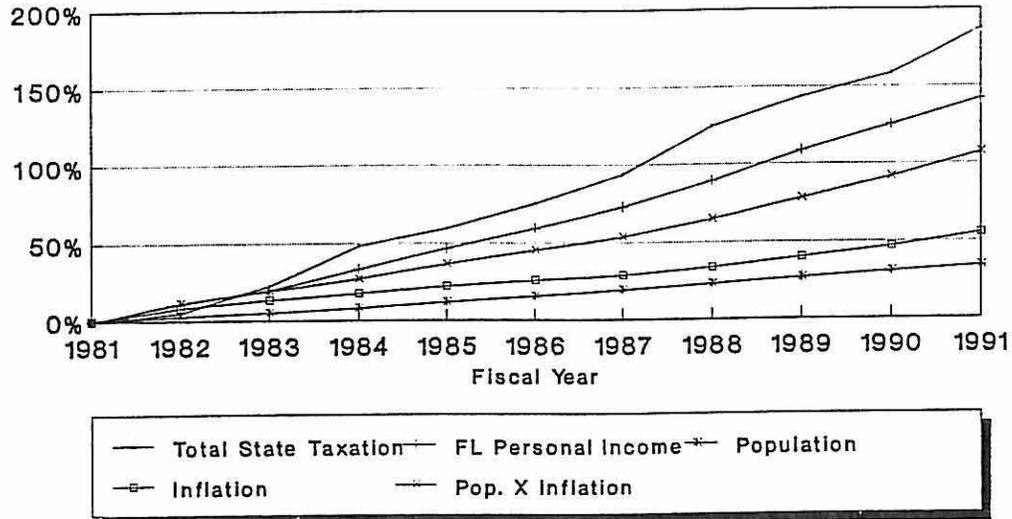
Figure 8
Taxes by Source
FY 1981 vs. FY 1991



Note: These categories are made up of the following taxes:
Car & Driver - all taxes on motor and special fuel, motor vehicle, mobile home and drivers licenses and auto title and lien fees.
Business - corporate taxes and fees, utilities tax, worker and unemployment compensation taxes, professional licenses and fees and the insurance premium tax.
Financial - intangibles, documentary stamp and estate taxes.

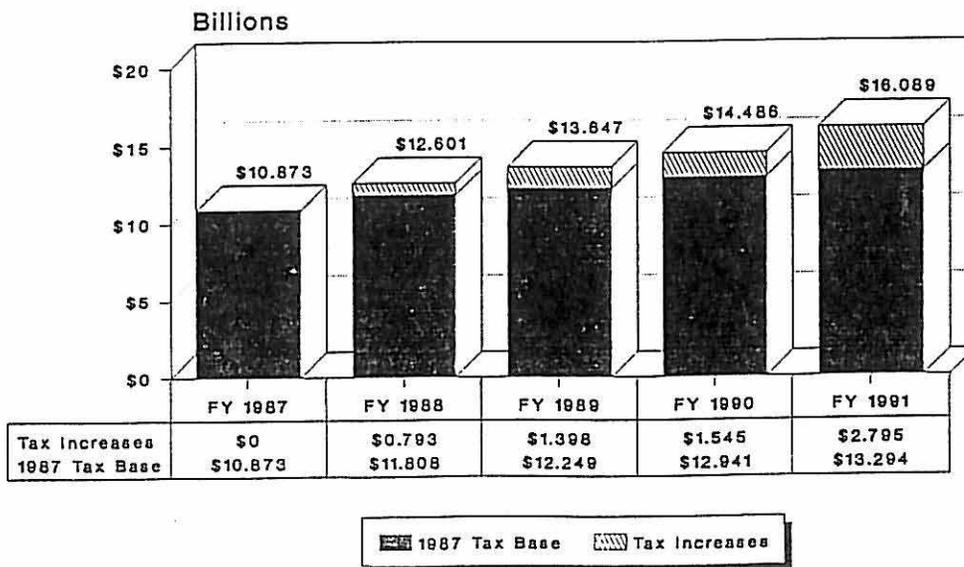
Source: Florida TaxWatch, Inc.,
 October 1990.

Figure 9
Growth in Taxes, Income,
Population and Inflation



Source: Florida TaxWatch, Inc.,
October 1990.

Figure 10
Tax Base and Tax Hikes
FY 1987 through 1991



Source: Florida TaxWatch, Inc.,
October 1990.

DATA SOURCES

Figure 1: *Growth in Taxes and Appropriations*

Data Source: Executive Office of the Governor, Office of Planning and Budgeting and the Florida Consensus Estimating Conference.

Figure 2: *Per Capita Spending vs. Real Per Capita Spending*

Data Source: Executive Office of the Governor, Office of Planning and Budgeting and the Florida Consensus Estimating Conference.

Figure 3: *Major Program Appropriations 1980-81*

Data Source: Executive Office of the Governor, Office of Planning and Budgeting.

Figure 4: *Major Program Appropriations 1990-91*

Data Source: The Florida Legislature.

Figure 5: *Work Load Indicators*

Data Source: Florida Consensus Estimating Conference, the Florida Department of Education, the Florida Department of Health and Rehabilitative Services and the Florida Legislature.

Figure 6: *Per Capita Taxes vs. Real Per Capita Taxes*

Data Source: Florida Consensus Estimating Conference.

Figure 7: *Receipts by Fund FY 1981 vs. FY 1991*

Data Source: Florida Consensus Estimating Conference.

Figure 8: *Taxes by Source FY 1981 vs. FY 1991*

Data Source: Florida Consensus Estimating Conference.

Figure 9: *Growth in Taxes, Income, Population and Inflation*

Data Source: Florida Consensus Estimating Conference.

Figure 10: *Tax Base vs. Tax Hikes FY 1987 through FY 1991*

Data Source: Florida Consensus Estimating Conference and the Florida Legislature.

Tax increases calculated using actual collection data if available. If not, most recent estimate of first year collection used, future years were calculated using revenue estimating conference growth rates. Includes local portion of state tax increases, does not include required local effort increases or non-tax revenue such as the lottery.

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ABOUT BUDGET WATCH

Florida TaxWatch is the only statewide organization entirely devoted to Florida spending and taxing issues. Florida TaxWatch is well-known and respected for its empirically sound research products which recommend productivity enhancements and explain statewide impact of economic and tax and spend policies and practices.

Florida TaxWatch is a private, non-profit, non-partisan research institute supported entirely by voluntary, tax-deductible membership contributions and philanthropic foundation grants. Without lobbying, Florida TaxWatch has worked diligently and effectively to reduce government inefficiency and promote responsible, cost effective improvements that add value and benefit taxpayers.

Last August, Florida TaxWatch introduced a new series to its roster of continuing research reports. Entitled *Budget Watch*, this regular publication tracks current state tax and spend developments to provide an independent assessment of decisions made in the budget process. *Budget Watch* is designed to promote smarter spending as a viable alternative to raising revenues. Hopefully, this new series will be a force for more rational allocation of state resources.

Budget Watch will appear at least once each month as an added service to our members and an informative vehicle for use by representatives of the press and the public.

This report was researched and written by Kurt R. Wenner, senior research analyst, Michael Walsh, senior research analyst, and Ken Marshall, research analyst, under the direction of Dr. Karen P. Walby, director of research.



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