

BUDGETWATCH

THE GOVERNOR'S FY2021-22 BUDGET RECOMMENDATIONS

FEDERAL FUNDS WOULD LEAD TO RECORD SPENDING

Despite the negative revenue impact of the COVID-19 pandemic and the Legislature's early talk of shortfalls and budget cuts, Governor Ron DeSantis has released a proposed budget for FY2021-22 that totals \$96.578 billion, a \$4.308 billion (4.7 percent) increase over current year spending. This would be the largest state budget in history and the fourth largest annual growth in the last ten years.

Estimated General Revenue (GR) collections for the upcoming budget year (FY2021-22) are \$1.4 billion below what was anticipated by the pre-pandemic forecast. This follows total revenue losses of \$3.9 billion in FY2019-20 and FY2020-21. Still, the Governor's budget recommendations would increase GR spending by more than \$1 billion (3.0 percent) next year, and still leave \$2.2 billion in unallocated GR (cash) reserves. Total state reserves of \$4.9 billion would be at the largest level since before the Great Recession.

The proposed budget includes some significant spending priorities of the Governor including a new program to provide \$1 billion in grants to improve coastline resiliency, more than \$625 million for water resource restoration and recovery, \$550 million to continue raising teacher salaries, \$423 million for affordable housing, a \$285 million increase in public school funding, and a net increase of 324 state employee positions. The Governor is also recommending limited tax relief.

THANK YOU UNCLE SAM

The Governor was able to put such a sizable balanced budget together because of a massive influx of federal aid. The state received \$5.9 billion from the Coronavirus Relief Fund created by the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. This money was deposited into GR towards the end of FY2019-20 and allowed Florida to avoid a budget deficit in that year as well as the current budget year. In addition, an increased federal match for Medicaid help cover the added recipients resulting from the pandemic and allowed over a billion dollars in already appropriated state funds to return to the treasury.

Budget Snapshot

Total Funding--\$96.578 billion--\$4.308 billion (4.7 percent) more than current year spending. This would be the largest state budget in history and the fourth largest annual growth in the last ten years.

Federal Funding--\$34.090 billion--\$1.123 billion (3.4 percent) more than the current year. While this is a significant increase, it understates the budget's reliance on federal funds. The \$5.9 billion in federal CARES Act money--deposited into General Revenue in FY2019-20--is the main reason Florida has been able to avoid a budget deficit in that year and the current year and why there is sufficient revenue to fund the Governor's proposal for next year.

General Revenue (GR) --\$35.793 billion--\$1.042 billion (3.0 percent) more than the current year. While there is significant non-recurring GR left over, the Governor's budget would spend \$809.5 million more in recurring GR than is available.

State Employees - 113,722 state employee positions, 324 (2.4 percent) more than are currently funded.

Taxes - Only two state tax cuts are proposed--an 8-day back-to-school sales tax holiday and a 10-day disaster preparedness holiday. These two holidays will save taxpayers \$65.2 million--\$14.9 million of which is local revenue. The Governor is recommending using the same millage rate as the current year for Required Local Effort school property taxes. This is a divergence from recent years where the rolled-back rate was used for RLE. Exceeding the rolled-back rate is considered by many to be a tax increase, although the Governor's Office is clear that they do not view it that way.

Reserves - \$6.6 billion, including \$2.2 billion in unallocated General Revenue (cash) reserves. The \$6.6 billion number includes \$1.7 billion in unallocated trust funds, which are normally not considered state reserves. Still, the \$4.9 billion in cash reserves, the Budget Stabilization Fund and the Chiles Endowment would be highest level of reserves since before the Great Recession.

Trust Fund Sweeps - Transfers \$295.5 million from trust funds to general revenue. The Governor does sweep \$225.0 million from the Sadowski (affordable housing) trust funds. However, this is in effect money that he vetoed last year and was supplanted with CARES Act funds.

Bonding - In recent history, new state bonding has largely been limited to transportation (the DOT work program). This year, in addition to transportation, the Governor is proposing \$418.8 million in bonds for Everglades restoration (\$76.5 million), state facilities (\$172.3 million), and his proposed Resilient Florida program (\$170.0 million). Again, there is no bonding for Public Education Capital Outlay (PECO).

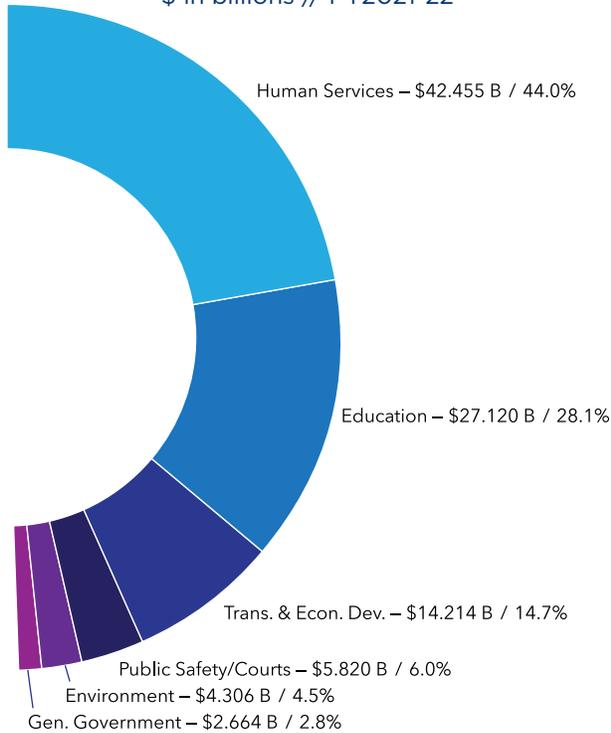
FY2021-22 Governor's Budget Recommendations

Compared to Current Year (\$ millions)

Department/Agency	General Revenue	Trust Funds	Total	Current Year Total	+ /(-) Current Year	Positions (FTEs)	+/- Current Year
Administered Funds (Statewide)	\$35.2	\$28.5	\$63.7	\$277.5	\$(213.8)	-	0
Agency for Health Care Admin.	\$8,587.6	\$25,201.0	\$33,788.6	\$30,738.3	\$3,050.3	1,529.5	0
Agency for Persons with Disabilities	\$650.5	\$905.9	\$1,556.4	\$1,530.7	\$25.7	2,700.5	0
Agriculture and Consumer Services	\$113.3	\$1,599.2	\$1,712.5	\$1,758.0	\$(45.5)	3,726.3	-14
Business and Professional Regulation	\$1.5	\$161.3	\$162.8	\$163.6	\$(0.8)	1,644.3	-15
Children and Families	\$1,909.4	\$1,530.0	\$3,439.4	\$3,386.7	\$52.7	12,161.8	109
Citrus	\$5.7	\$20.8	\$26.5	\$26.5	\$-	27.0	0
Corrections	\$2,849.8	\$60.7	\$2,910.5	\$2,838.1	\$72.4	25,560.0	406
Economic Opportunity	\$46.6	\$1,206.9	\$1,253.5	\$976.9	\$276.6	1,511.0	42
Education	\$17,780.0	\$9,339.6	\$27,119.6	\$26,775.4	\$344.2	2,266.8	0
Elder Affairs	\$176.3	\$188.5	\$364.8	\$369.6	\$(4.8)	407.0	3
Environmental Protection	\$41.9	\$2,111.0	\$2,152.9	\$2,213.4	\$(60.5)	2,932.5	15
Executive Office of The Governor	\$297.5	\$1,731.8	\$2,029.3	\$1,502.1	\$527.2	440.0	-5
Financial Services	\$22.6	\$375.9	\$398.5	\$405.2	\$(6.7)	2,564.5	-5
Fish and Wildlife Conservation Comm.	\$47.2	\$339.7	\$386.9	\$418.7	\$(31.8)	2,114.5	0
Florida Commission on Offender Rev.	\$11.9	\$0.1	\$12.0	\$12.3	\$(0.3)	132.0	0
Health	\$529.0	\$2,623.2	\$3,152.2	\$3,139.0	\$13.2	12,710.0	0
Highway Safety and Motor Vehicles	\$0.0	\$510.7	\$510.7	\$506.4	\$4.3	4,277.0	-62
Justice Administration	\$865.2	\$155.8	\$1,021.0	\$1,013.5	\$7.5	10,565.8	5
Juvenile Justice	\$440.0	\$143.5	\$583.5	\$586.1	\$(2.6)	3,286.5	1
Law Enforcement	\$149.5	\$151.4	\$300.9	\$290.2	\$10.7	1,949.0	0
Legal Affairs	\$63.5	\$332.9	\$396.4	\$297.8	\$98.6	1,275.5	-109
Legislative Branch	\$216.0	\$2.6	\$218.6	\$219.2	\$(0.6)	0	0
Lottery	\$0.0	\$193.9	\$193.9	\$188.0	\$5.9	418.5	0
Management Services	\$66.6	\$855.0	\$921.6	\$739.2	\$182.4	1,301.5	-3
Military Affairs	\$28.4	\$40.4	\$68.8	\$72.6	\$(3.8)	453.0	0
Public Service Commission	\$0.0	\$26.9	\$26.9	\$26.8	\$0.1	271.0	0
Revenue	\$220.5	\$385.8	\$606.3	\$615.4	\$(9.1)	5,006.8	-48
State	\$57.3	\$29.8	\$87.1	\$111.6	\$(24.5)	414.0	0
State Court System	\$495.3	\$100.1	\$595.4	\$592.5	\$2.9	4,398.5	0
Transportation	\$50.0	\$10,313.1	\$10,363.1	\$10,326.2	\$36.9	6,194.0	0
Veterans' Affairs	\$35.2	\$118.3	\$153.5	\$152.2	\$1.3	1,483.5	4
Totals	\$35,793.4	\$60,784.4	\$96,577.8	\$92,269.7	\$4,308.1	113,722.0	324

Source: Florida TaxWatch, compiled using the Governor's Budget Recommendations, February 2021

Appropriations by Program Area
Governor’s Budget Recommendations
 \$ in billions // FY2021-22



Technically, the CARES Act funds are being spent in the current fiscal year and can not be used (again technically) to replace revenue lost due to COVID. However, the effect is that the Legislature did not have to find new money (or make spending cuts) to fund the appropriations it already made for FY2019-20 and FY2020-21. This is allowing Florida to enter the new budget year in much better fiscal shape.

In addition, the Governor’s proposed budget includes a total of \$34.090 billion in federal funds--\$1.123 billion (3.4 percent) more than the current year. This includes \$1.9 billion in additional federal aid from the Federal Emergency Management Agency (FEMA) for both COVID-19 and hurricane response and recovery costs.

The \$5.9 billion in CARES funds received by the state includes \$1.3 billion to be distributed

to local governments. Larger local governments in Florida also received \$2.5 billion directly from the federal government. The CARES Act further provided another \$7.8 billion in aid directly to public and private entities and services, including healthcare providers, schools and universities, housing, substance abuse and mental health, agriculture, the arts, libraries and homeland and election security and much more. All this aid relieves pressure on the state to provide funding. *(Look for an upcoming Budget Watch that will examine all this federal assistance in detail.)*

HIGHLIGHTS OF THE GOVERNOR'S BUDGET RECOMMENDATIONS

EDUCATION

K-12 Education - The Governor is recommending a 3.0 percent (\$233) increase in per student funding, raising it to \$8,019 per student. Total funding for the Florida Education Finance Program (FEFP) is \$22.709 billion, a \$285.5 million increase. In a departure from recent years, most of this increase (\$217.1 million) would be paid by local property taxes (as opposed to state funds). The Governor is recommending using the same millage rate as the current year for Required Local Effort school property taxes. For the last few years, the Legislature has been using the rolled-back millage rate—which allows property tax revenue to grow by new construction only. Exceeding the rolled-back rate is considered by many to be a tax increase, although the Governor's Office is clear that they do not view it that way.¹

The proposed increase in FEFP funding includes \$184.6 million (1.3 percent) in the base student allocation.² The Teacher Salary Increase Allocation would be increased by \$50.0 million (10.0 percent) to continue raising the minimum teacher salary to \$47,500. The Mental Health Assistance Allocation would also be increased by \$10 million (\$10.0 percent).

Higher Education - Florida colleges and universities would both see small decreases in total funding. No tuition increase is recommended. In fact, proposed proviso language would prohibit tuition hikes.

Education Fixed Capital Outlay - The Governor recommends \$180.0 million for maintenance, repair and renovation for charter schools, no maintenance funding is provided for traditional public schools, universities, or colleges. Three small counties (Baker, Bradford, Levy) would receive \$34.1 million for public school construction projects. No college or university construction projects are funded.

ENVIRONMENT

One of the Governor's top priorities is restoring and protecting Florida's water resources; especially expediting Everglades restoration and preventing harmful algal blooms in waterbodies such as Lake Okeechobee and the St. Lucie and Caloosahatchee estuaries. His budget includes the third year of his four-year plan to spend \$2.5 billion on water resources³.

Everglades Restoration (\$473 million), including \$311.0 million for Comprehensive Everglades Restoration Plan projects, including the C-43 and C-44 Reservoirs, and \$80.0 million for Northern

¹ Governor's Budget Director Chris Spencer, answering a question from Rep. Randy Fine after a presentation to the House Appropriations Committee on the Governor's budget recommendations, February 3, 2021.

² The BSA is the portion of FEFP funding that school districts can use at their discretion.

³ This investment is supported by Florida TaxWatch research. For more info see *We Can't Wait on Water: The Restoration and Protection of Florida's Water Resources is an Essential Taxpayer Investment*, January 2020.

Everglades and Estuaries protection. The budget also includes \$64.0 million for the Everglades Agricultural Area reservoir project created by the Legislature in 2017.

Targeted Water Quality Improvements (\$145 million), including: \$100 million for cost-share grant funds for water quality improvements, including septic conversions and upgrades, other wastewater improvements, and rural and urban stormwater system upgrades; and \$45 million to accelerate projects to meet scientific nutrient reduction goals (e.g. Total Maximum Daily Loads).

The package also funds **springs restoration** (\$50 million), an **alternative water supply grant program** (\$40 million), and \$25 million to combat **harmful algal blooms** (including the Blue-Green Algae Task Force that started last year).

In addition, the Governor recommends \$50 million for the Florida Forever land acquisition program which would focus on land that protect water resources.

Resilient Florida Program - The Governor is proposing a new program that would provide \$1 billion over four years for grants to state and local governments for “projects to adapt regionally significant assets to address the impacts of sea level rise, intensified storms and localized flooding.” To fund this program, \$25 million in documentary stamp tax revenue would be diverted from General Revenue to the program. The amount diverted would increase by \$25 million a year until reaching \$100 million in FY2024-25. The money would be bonded to fund the \$1 billion in grants. The proposed budget includes \$170 million in bonds for the first year of the Resilient Florida Program.

HEALTH AND HUMAN SERVICES

Medicaid - The Governor’s proposed budget contains \$1.7 billion for the increase in Medicaid enrollment. The pandemic is expected to swell the number of Medicaid recipients to 4.6 million persons in the upcoming budget year, a 20.4 percent growth from pre-pandemic levels.⁴ No Medicaid reimbursement rates are reduced and \$36.6 million is provided to increase rates for Intermediate Care Facilities for the Developmentally, almost fully restoring the rate increase he vetoed last year. The budget includes \$15 million in funding to allow an additional 306 individuals in the Medicaid iBudget program, which helps people with developmental disabilities live at home or in their communities. The Governor does not restore his veto of \$58.4 million in rate increases for community-based providers who care for people with disabilities.

Opioid Crisis Response - The Governor is recommending \$178.0 million to address Florida’s opioid epidemic, including \$119.9 million from the State Opioid Response Grant to provide evidence-based prevention and medication-assisted treatment and recovery.

⁴ Office of Economic and Demographic Research, results of the Social Services Estimating Conference - Medicaid Caseloads, December 8, 2020. <http://www.edr.state.fl.us/Content/conferences/medicaid/index.cfm>

ECONOMIC DEVELOPMENT AND TRANSPORTATION

Disaster Recovery - The recommended budget includes \$1.9 billion in federal and state funds to help communities with hurricane and other emergency recovery and mitigation against future emergencies. This includes \$383 million in the Division of Emergency Management to continue the state's COVID-19 response efforts.

VISIT FLORIDA - Last session, the Legislature delayed the scheduled sunset of VISIT FLORIDA until October 1, 2023. Florida TaxWatch research has shown the value in funding tourism marketing and strongly cautioned against elimination and those programs.⁵ The Governor is recommending \$50.0 million for VISIT FLORIDA (level funding).⁶

Strategic Business Development

- Enterprise Florida - \$21.0 million, including \$5.0 million in new funding for targeted campaign to entice companies from other states to move to Florida.
- Economic Development Tools - \$21.5 million to continue incentives for business that are meeting their contractual commitments to create jobs and capital investment.
- Florida Job Growth Fund - \$50.0 million (\$30 million increase) for grants for job training and local infrastructure projects with a proven return on investment.
- Space Florida - \$18.5 million (level funding).

Affordable Housing - The Governor fully funds affordable housing at \$423.3 million, as recommended by Florida TaxWatch.⁷ The Governor does sweep \$225.0 million from the Local Government Affordable Housing Trust Fund. However, this is in effect money that he vetoed last year and replaced with \$250 million of CARES Act funds.

Transportation - The Governor's budget funds the Department of Transportation's work program at \$8.8 billion, including:

- \$2.5 billion for highway construction to include 210 new lane miles;
- \$1.0 billion for resurfacing 2,689 lane miles;
- \$331 million for aviation improvements;
- \$717 million for rail/transit program improvements;
- \$516 million for repair of 89 bridges and replacement of 18 bridges;
- \$172 million for safety initiatives; and
- \$123 million in seaport infrastructure improvements.

⁵ Florida TaxWatch, "Investing in Tourism: Analyzing the Economic Impact of Expanding Florida Tourism," January 2013.

⁶ There is legislation before the 2021 Legislature (HB 675 and SB 778) to remove any sunset date from the VISIT FLORIDA statute.

⁷ Florida TaxWatch, "The Legislature Must Stop Diverting Affordable Housing Funding," April 2019.

PUBLIC SAFETY AND THE COURTS

Under the Governor's plan, the **Department of Corrections'** budget would increase by \$72.4 million (2.6 percent) and add 406 new positions. This includes \$5.0 million to continue a retention pay plan to reduce correctional office turnover and \$26.1 million and 330 new positions to reduce officers' shifts from 12 hours to 8.5 hours. The budget also includes \$2.5 million and seven FTEs to enhance prison safety, \$4.5 million and seven FTEs million to increase reentry efforts.

Another \$19.0 million would be provided for repairs and renovations to correctional and **juvenile justice** facilities and \$12.4 million for prevention services for at-risk youth.

State Court System - \$10.8 million for problem solving courts such as drug courts, mental health courts, and veterans' courts. Florida TaxWatch supports the increased use of these problem solving courts.

TAX RELIEF

The Governor is recommending limited tax relief, two sales tax holidays that will give taxpayers a one-time savings of \$65.2 million, \$14.9 million of which is local revenue. The Governor has not taken a position on e-Fairness legislation (collecting sales tax on remote sales), a major priority of Florida TaxWatch.⁸

Back to School Sales Tax Holiday - A eight-day period (July 31 to August 7) when clothing priced at \$60 or less, school supplies priced at \$15 or less, and computers and accessories purchased for noncommercial use priced at \$1,000 or less would be exempt from sales taxes. This would provide \$43.8 million in state tax savings and \$12.8 million in local sales taxes.

Disaster Preparedness Sales Tax Holidays - A 10-day period (May 28 to June 6, 2021) when items such as flashlights, batteries, coolers and reusable ice, portable radios, generators, fuel tanks, tarps, and tie-down kits would be exempt from state and local sales taxes. This would provide \$6.7 million in state tax savings and \$2.0 million in local sales taxes.

BUDGET REDUCTIONS/SAVINGS

The Governor does help his budget's bottom line by recommending some budget reductions. He is claiming \$1.1 billion in savings--\$839.3 million in FY2020-21 and \$265.3 million in FY2021-22. However, most of those savings (\$554.7 million) are due to the increased federal Medicaid match. The Governor is also recommending the elimination of 203 positions, although net positions increase by 324 FTEs.

⁸ SB 50 and HB 15 have been filed for the 2021 Session. These bills would finally take steps to collect taxes that are currently legally owed on remote sales (such as over the internet.) SB 50 has already passed one committee.

The Governor recommends savings of \$408.2 million in administrative and operational efficiencies, \$40.8 million in debt service savings, \$64.2 million from bonding, \$16.5 million in workload adjustments, \$16.0 million in contract and lease savings, and \$4.3 million in reduced excess budget authority.

CONCLUSION

When Floridians first started realizing the magnitude of the reduction in state revenue collections due to the pandemic, many thought we were headed for a budget deficit, if not in FY2019-20 then surely in FY2020-21. The idea that the next state budget could represent a \$4.3 billion spending increase would have likely been unthinkable.

Federal aid in response to the COVID-19 pandemic has allowed Florida to thus far avoid legislative action on the budget. The virus was hitting Florida just as the 2020 Legislature was winding up its work and the 2021 Legislature has just recently begun interim committee meetings in advance of the 2021 Session, which begins March 2. The budget passed in 2020 barely addressed COVID-19. Florida is fortunate in that one of the requirements for using CARES Act funds is that expenses could not have been accounted for in the budget most recently approved as of March 27, 2020. The Legislature passed the budget on March 19, but it was not signed by the Governor until June 29. This meant all appropriations in the current budget that met the other requirements were eligible for CARES Act funds.

Due to the \$5.9 billion in CARES Act funds that was deposited into GR in FY2019-20, Florida (on paper) is in good fiscal shape heading into the new budget year. This, along with other federal aid, allowed the Governor to propose a spending increase of \$4.3 billion.

While easily balanced and with significant reserves left over, the proposed budget does raise some warning signs. The Governor recommends spending \$34.669 billion in general revenue on recurring expenses, \$810 million more than the recurring revenue that is available. There is plenty of non-recurring revenue to cover that shortfall, but it means the budget does not address the “structural imbalance” that state economists have been warning about.⁹

The Governor believes the economy will come roaring back faster than many believe, and he may be right. Absent some event that would further negatively impact revenues, it is likely the Revenue Estimating Conference will increase its forecast when it meets again in March. In December 2020, the first month after the last estimate was made—actual GR collections exceeded the estimate for month by \$336.7 million.

9 Florida Legislature, Long-Range Financial Outlook, annual report. <http://www.edr.state.fl.us/Content/long-range-financial-outlook/index.cfm>

Although this is not reflected in the current estimates of available revenue, \$300 million of that is factored into the Governor's budget recommendations.

The estimate of available revenue in the Governor's proposal also includes \$319 million in CARES Act funds that has yet to be distributed to local governments. That money will eventually be distributed or returned to Washington.

Florida TaxWatch encourages the Legislature to consider more reductions in unnecessary spending, especially recurring appropriations. We also recommend lawmakers significantly curtail member projects this year and pass legislation proposed by the Governor to reform Economic Development Transportation Projects funding.¹⁰ The Legislature should also implement E-Fairness legislation and negotiate a new gaming compact with the Seminole Tribe. These two actions could provide \$1 billion to \$1.5 billion in new revenue without raising taxes.¹¹

¹⁰ This is a long-time Florida TaxWatch recommendation to establish a competitive process for selecting these projects and reducing the number of "budget turkeys."

¹¹ Florida TaxWatch, Bringing Florida's Budget Back From COVID-19: A Roadmap for a Responsible Recovery, June 2020.

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