

FLORIDA TAXWATCH

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Florida's Fiscal Strength Ranked 5th Best Nationally

A recent study by George Mason University's Mercatus Center reviewed the fiscal health of the United States, breaking down each state individually for comparison across several standardized metrics. The report outlines various aspects that impact each state's fiscal health, including (Florida rank):¹

- **Cash solvency (2nd):** a measure of whether a state has enough cash to cover its short term bills;
- **Budget solvency (5th):** a measure of whether a state can cover its fiscal year spending out of current revenues;
- **Long-run solvency (31st):** a measure of whether a state has a hedge against large long term liabilities;
- **Service-level solvency (4th):** a measure of how high revenues, taxes, and spending are compared to a state's personal income tax; and
- **Trust fund solvency (11th):** an overall measure of how much debt a state has.

After calculating the relative impacts of each measure on each state, the George Mason University study ranked Florida fifth in the nation in overall fiscal condition. This *Economic Commentary* takes a look into some of these measurements, as well as examining other areas that affect Florida's fiscal standing.



¹ Norcross, Eileen. "How Does Florida Compare to Other States?" Mercatus Center at George Mason University (n.d.): n. pag. Web. July 2015.



2 | One important factor that impacts a state's fiscal standing is the state's reserve fund. According to a Pew Charitable Trusts study, the total balance of Florida's reserve fund is approximately \$3.5 billion, the fifth highest gross amount in the nation.² In fact, it is estimated that Florida could run on only reserve funds for 47.5 days, more than 20 above the nation's median of 25.9 days.³

It is also interesting to note that larger states tend to struggle in terms of having a reserve large enough to fund government activities for any extended period of time. While Florida's ability to run on reserves for 47.5 days ranks eleventh in the nation,⁴ there is only one state ranked higher than Florida that has a population above seven million people (Texas).⁵ In fact, states that compete with Florida based on population size like Pennsylvania, Illinois, and New York all ranked toward the bottom of the nation in the Pew study, with reserve funds only sufficient enough to cover their needs for 1, 4.1, and 13.3 days respectively.⁶

Within the reserve fund is a subset called the Budget Stabilization Fund (commonly referred to as a "rainy day fund"), the creation of which was prompted by Florida TaxWatch and the Taxation and Budget Reform Commission in 1992. Chapter 215.32, *Florida Statutes*, states that the Budget Stabilization Fund must equal "at least 5% of the net revenue collections for the general revenue fund during the last completed fiscal year."⁷

2 "Fiscal 50: State Trends and Analysis." PEW Charitable Trusts, 11 Nov. 2015. Web.

3 *Ibid.*

4 "Fiscal 50: State Trends and Analysis." PEW Charitable Trusts, 11 Nov. 2015. Web

5 The United States Census Bureau. *Florida Passes New York to Become the Nation's Third Most Populous State*, Census Bureau Reports. N.p., 23 Dec. 2014. Web.

6 "Fiscal 50: State Trends and Analysis." PEW Charitable Trusts, 11 Nov. 2015. Web

7 Chapter 215.32, *Florida Statutes*

The Budget Stabilization Fund, which is created when surpluses of revenue are set aside by a state government, is important in judging the overall fiscal health of a state. Public spending and the source for that spending, tax collections, do not always coincide with each other; in fact, they rarely do. As a protection for the state, rainy day funds are accumulated during times of economic growth and can be used during budget shortfalls.⁸

In fiscal year 2015, Florida's Budget Stabilization Fund held an estimated \$1.14 billion, ranking as the seventh largest fund in the nation.⁹ The budget stabilization fund goes a long way in protecting Florida against unanticipated swings in the market that could create budget shortfalls, and the fact that the Budget Stabilization Fund is not only well funded, but also legislatively mandated is a testament to the fiscal wellbeing of the state of Florida.

As addressed by the Mercatus study, another important measure of fiscal health for a state is the amount of long-term debt a state holds. More specifically, a hot button issue sweeping the nation is the state of public pension funds. While many municipalities throughout the state struggle with funding local pension funds, Florida has been relatively successful in terms of funding the pension at the state level. With an estimated \$29 billion in pension obligations,¹⁰ economic analyses from various private and public entities show that Florida's state pension system is in relatively good health, funded at around 80 percent.¹¹

The study by the Mercatus Center was able to analyze various factors that affect the fiscal health of each individual state. Their results verify that Florida is currently in a strong fiscal position, ranking fifth in the nation in overall fiscal health. Looking at various other facets of Florida's fiscal health, TaxWatch finds strong evidence to support the Mercatus Center's ranking.

Conclusion

Florida's fiscal standing grants the state the advantage of financial freedom moving forward. Due to the fact that the state does not carry large amounts of debt, Florida lawmakers can continue to invest in the state, and in new and emerging sectors that can make the state a national leader in areas like manufacturing, allowing Florida to financially stay ahead of the curve. While legislators must always be on the lookout for potential problems, as it stands today, Florida's fiscal health is relatively strong.

8 "A Primer on State Rainy Day Funds." Review. *Institute on Taxation and Economic Policy* n.d.: n. pag. Web.

9 White, Kathryn Vesey. *The Fiscal Survey of States*. Rep. N.p.: National Association of State Budget Officers, n.d. Print.

10 "Fiscal 50: State Trends and Analysis." PEW Charitable Trusts, 11 Nov. 2015. Web.

11 "Fiscal 50: State Trends and Analysis." PEW Charitable Trusts, 11 Nov. 2015. Web. and "State Pension Plans: Liabilities, Funded Ratios." Rep. N.p.: Governing, n.d. Print.

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