

BUDGETWATCH

WHAT A DIFFERENCE A YEAR MAKES

2022 Legislature Heads into Session with a \$7 Billion Budget Surplus

Last year, COVID-19's arrival in Florida and the attendant economic shutdown had state forecasters--and virtually everyone else--predicting gloomy fiscal times for Florida. The 2020 legislative *Long-Range Financial Outlook* estimated that the 2021 Legislature would be facing a budget shortfall of \$2.7 billion, and without significant spending cuts, the shortfalls would continue for at least two more years.

Instead, the 2021 Legislature passed a record \$101.7 billion budget and the new *Outlook* is predicting multi-billion dollar budget surpluses for the near future.

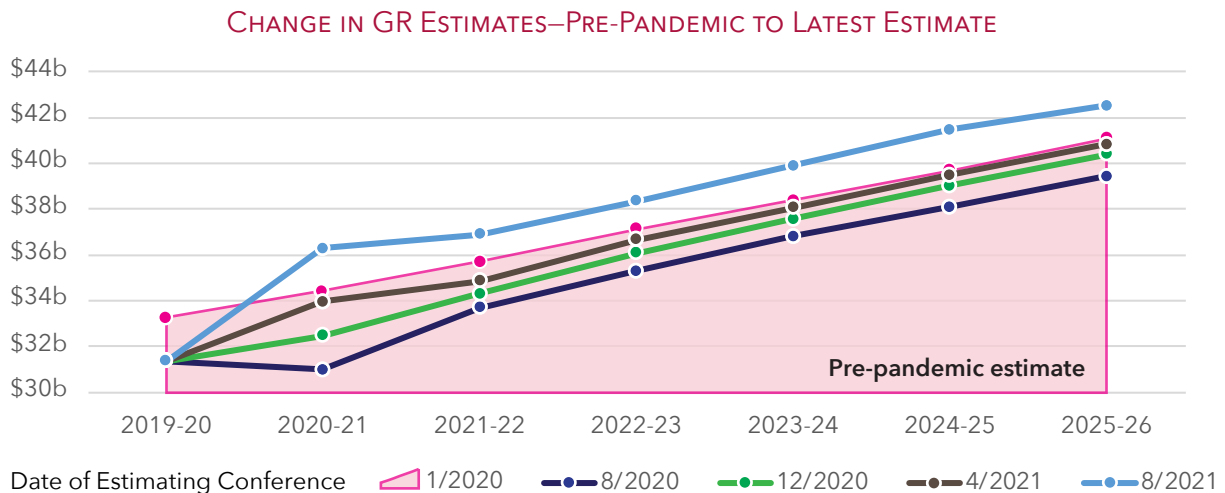
The *Outlook* is a constitutionally required annual report that compares estimated revenues to expenditures to give the Legislature a sense of the state's budget position going into session and whether lawmakers can expect a budget shortfall or surplus (for more description of the *Outlook*, see Appendix). It is a valuable tool that also looks ahead, giving a sense of what past budgetary actions mean for the state's financial outlook over the next three years.

The latest edition of the *Outlook*,¹ recently adopted by the Joint Legislative Budget Commission, estimates that the 2022 Legislature will have a surplus of \$7.0 billion to work with when they put together the FY2022-23 state budget. This means it could continue to fund most everything in the current budget, provide average increases in funding, pass some tax cuts, and leave a \$1.5 billion in cash reserves (plus \$2.7 billion in the Budget Stabilization Fund) and still have \$7.0 billion left over. This assumes no new initiatives or extraordinary increases in funding, but it also does not include any reduction/elimination of appropriations in the base budget. If the Legislature were to follow this assumed budget blueprint, the GR budget surplus would grow to \$8.2 billion in FY2023-24 and \$10.3 billion in FY2024-25.

Federal pandemic-relief aid and a Florida economy that rebounded much quicker than expected are the two big reasons for the change. Funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES) resulted in \$5.8 billion being deposited in Florida's General Revenue Fund towards the end of FY2019-20. While increased Medicaid enrollment from the pandemic increased Florida's state cost in FY2020-21 and FY2021-22, the increased federal contribution (known as FMAP) mitigated the increase and allowed \$592 million in already appropriated Medicaid funds be returned to GR. The 2021 Legislature used billions in additional federal aid to augment appropriations, especially in education and child care.

¹ Florida Legislature, Long-Range Financial Outlook, Fiscal Years 2021-22 through FY2023-24, September 10, 2020. Available at http://www.edr.state.fl.us/Content/long-range-financial-outlook/3-Year-Plan_Fall-2020_2022-2224.pdf

Florida has not received all the aid it has coming and there is even more Florida can apply for. This includes \$4.4 billion still to be received from the American Rescue Plan's State and Local Fiscal Recovery Fund and billions in education funding that has not yet been spent or distributed to school districts.



Revenue collections are also making a strong comeback, thanks in large part to the economic boost provided by the federal stimulus packages.

The effects of the pandemic-induced economic shutdown hit Florida revenue quickly. GR collections came in \$2 billion below estimate in just the last three months of FY2019-20. The next Revenue Estimating Conference (August 2020) reduced the estimate for the next two years by a total of an additional \$5.4 billion.

However, subsequent conferences began adding some of the lost revenue back, until the latest conference (August 2021) forecast revenues above pre-pandemic levels (see chart). In fact, the last estimating conference before the pandemic (January 2020) forecast total GR collections for the three-year period of FY2019-20 through FY2021-22 at \$103.4 billion. The first post-pandemic conference reduced those estimates by more than \$7.0 billion, down to \$96.0 billion. The current estimate is now \$104.5 billion²—more than one billion dollars above the pre-pandemic estimate.

BUDGET OUTLOOK

It is now estimated that there will be \$7.3 billion in unobligated GR remaining at the end of the current budget year. This money will be carried forward into the next year and be available for the 2022 Legislature to use for the FY2022-23 budget. Adding the new revenue estimate results in \$45.800 billion in total available GR (see table below).

This is considerably more than the current base budget of \$34.961 billion. The *Outlook's* critical needs (\$1.239 billion) and high priority needs (\$1.177 billion), means it will take \$37.377 billion to fund a continuation budget.

² 2021 legislative changes account for \$627 million of the increase in FY2021-22.

After allowing for a reserve of \$1.501 billion and making adjustments for assumed tax cuts and trust fund sweeps, a budget surplus of \$6.990 billion remains.

This surplus does not include additional funds still to come from the American Rescue Plan's State Fiscal Recovery Fund. The state has received half of its share (\$4.408 billion) and the second half is expected later this fiscal year. The Legislature appropriated \$5.346 billion³ from the fund in the FY2021-22 General Appropriations Act. This leaves \$3.471 billion in unobligated funds that the budget proviso states will be put in GR reserves. This means the true surplus exceeds \$10 billion.

BUDGET OUTLOOK - FY2022-23 THROUGH FY2024-25

GENERAL REVENUE - \$ IN MILLIONS

	FY22-23	FY23-24	FY24-25
Revenues			
Unspent GR from Prior Year	\$7,324	\$8,491	\$9,799
Estimated Revenues	\$38,476	\$40,028	\$41,607
Total GR Available for Appropriation	\$45,800	\$48,519	\$51,406
Expenditures			
Base Budget	\$(34,961)	\$(36,842)	\$(37,708)
Increase - Critical Needs	\$(1,239)	\$(589)	\$(477)
High Priority Needs	\$(1,177)	\$(1,311)	\$(1,298)
Minimum Reserve	\$(1,501)	\$(1,561)	\$(1,623)
Total Estimated Expenditures	\$(38,878)	\$(40,303)	\$(41,106)
Ending Balance After Expenditures	\$6,923	\$8,216	\$10,299
Tax Cuts (see note)	\$(85)	\$(130)	\$(176)
Trust Fund Sweeps	\$152	\$152	\$152
Budget Surplus	\$6,990	\$8,238	\$10,275

Note: Assumes the same amount of tax cuts are adopted each year--\$45.7 million in recurring cuts (\$17.8 million in first year) and \$66.8 million in one-time cuts. The annualization and recurring portion of the cuts compounds the amount in subsequent years. Source: Florida TaxWatch from data in the 2021 Long-Range Financial Outlook

³ After the Governor vetoed two ARP appropriations--a \$350 million transfer to the Budget Stabilization Fund and a \$1.0 billion Emergency Preparedness and Response Fund.

WHAT ARE THE \$2.416 BILLION IN ESTIMATED GR NEEDS FOR FY2022-23?

This detailing of the \$1.239 billion in Critical Needs and \$1.177 billion in High Priority Needs focuses on General Revenue (as does the *Outlook*). Many of these issues will require additional trust fund revenue as well.

PreK-12 Education (Total Need - \$62.7 million less in GR)

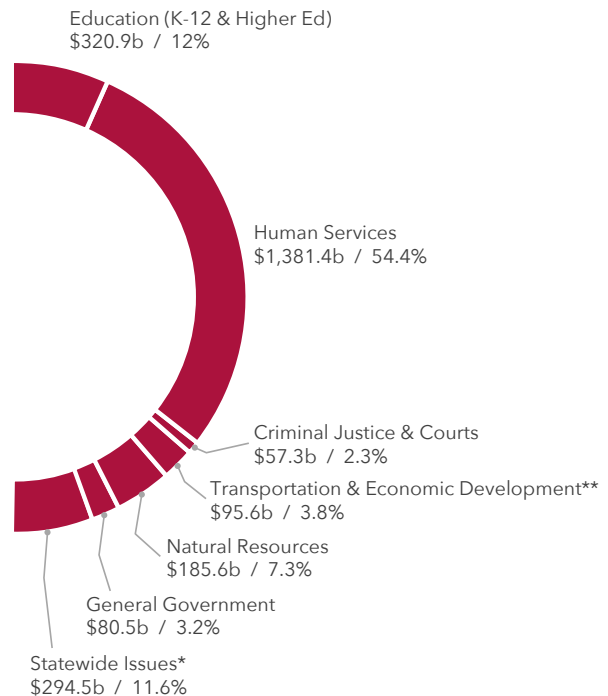
Critical Needs (\$-64.2 million GR) - The critical need in education is the GR required to fund enrollment growth and increase per-student funding. Enrollment growth of 111,773 students (4.0 percent) and increasing per-student funding for all students by 2.14 percent (the average of the last three years) will require \$390.3 million in additional funding. This assumes the same millage rate for Required Local Effort,⁴ meaning there will be additional revenue from increased property values.

However, this cost is more than covered by increased revenue in two education trust funds,⁵ resulting in extra revenue of \$452.5 million that can be used instead of GR. The result is that funding enrollment growth and a 2.14 percent per-student increase will cost \$62.2 million less next year.

The other Critical Need in education will also help the budget's bottom line. A projected enrollment drop of 3,101 students in the **Voluntary Pre-Kindergarten Program** will reduce needed GR funding by \$2.0 million (at the current per-student level).

High Priority Needs (\$1.5 million) - The only PreK-12 education high priority need is a \$1.5 million increase for the operations of the **Florida School for the Deaf and Blind**.

CRITICAL & HIGH-PRIORITY NEEDS BY PROGRAM AREA—FY2022-23



* Includes state employee salary and benefit increases, capital improvements, statewide technology issues, etc. ** Transportation is funded entirely by trust funds, so the Outlook includes no additional costs for transportation. Source: Florida TaxWatch from data in the 2021 Long-Range Financial Outlook

4 Required Local Effort is the amount of property taxes school districts must levy in order to participate in the state's school funding formula—the Florida Education Finance Program. The Legislature sets the amount of RLE—currently \$8.2 billion—in the General Appropriations Act each year, although it is not counted as a state appropriation. The current RLE millage rate is 3.720 mills statewide. School districts may also levy a non-voted local discretionary millage of 0.748 mills, that produces an additional \$1.7 billion.

5 The Educational Enhancement Trust Fund (funded by the lottery and slot machines) and the State School Trust Fund (funded by unclaimed property).

Higher Education (Total Need - \$383.6 million GR)

Critical Needs (-\$87.3 million) – An additional \$1.2 million in GR will be needed to fund more eligible students for the **Children and Spouses of Deceased/ Disabled Veterans scholarship program**. **Bright Futures Scholarships** are funded by the Educational Enhancement Trust Fund (Lottery) and fewer eligible students will reduce needed lottery funds by \$21.2 million in FY2022-23.

In addition, growth in lottery revenues provides an additional \$88.5 million from the Educational Enhancement Trust Fund to be used in higher education instead of GR. This reduces the total cost of the Critical Needs.

High Priority Needs (\$470.6 million GR) – Maintaining the current budget in higher education will require an additional \$333.9 million to continue nonrecurring funding for State University System Performance funding, the Open Door Grant Program at school district technical centers and Florida Colleges, and the Effective Access to Student Education grant program. Workload increases are also included for universities (\$90.7 million), colleges (\$39.6 million), and workforce education (\$6.0 million). These increases are the three-year average increase provided, not including member projects.

Increased funding of \$0.7 million is provided for student **financial assistance programs**—Effective Access to Student Education (EASE) and the Benacquisto Scholarship Program. No money is included for Access to Better Learning (ABLE) grants, which the Legislature eliminated last session.

Health & Human Services (Total Need - \$1,381.4 million GR)

The COVID-19 pandemic and massive unemployment from the attendant economic slowdown resulted in a large increase in Floridians in need. Not surprisingly, the cost of providing assistance to these families results in this budget area requiring the most additional funding.

Critical Needs (\$1,173.0 million) – Medicaid is a \$35 billion federal and state program, the largest single program in the state budget, accounting for just over one-third of the state budget. The pandemic has swelled **Medicaid enrollment** and the number of recipients now stands at just over five million people (FY2021-22). This is one million more than the pre-pandemic high in FY2016-17, which was first eclipsed last year. The number of recipients is expected to begin declining next year, but total enrollment will stay above pre-pandemic levels through at least FY2026-27.⁶ Medicaid is funded through GR, various state trust funds and federal funds. While total program expenditures are expected to increase by only \$551.5 billion in FY2022-23, the additional GR need is estimated at \$1.161. This is due in large part to the expected decrease in the Federal Medical Assistance Percentage (FMAP)—the federal share of costs—which was temporarily increased by 6.2 percentage points during the pandemic. The forecast assumes the FMAP will return to its normal rate at its scheduled time (the end of 2021). There is decent chance that the increased FMAP will be extended and if so, the state's cost will be less.

Florida's **Kidcare program**—which implements the federal Children's Health Insurance Program (CHIP)—provides health insurance to uninsured low-income children. The federal government pays roughly three-quarters of the cost of the program. Enrollment has been increasing significantly and will continue to do so through the Outlook's forecast horizon, increasing from 211,282 in FY2021-22 to 291,355 in FY2024-25—growth of 37.9 percent. The more than 50,000 additional children will cost the state \$20.6 million more in GR next year.

⁶ Florida Social Services Estimating Conference, Medicaid Caseloads and Expenditures, July 23 and August 5 and 6, 2021. <http://edr.state.fl.us/Content/conferences/medicaid/index.cfm>

In contrast, enrollment is expected to decrease in the **Temporary Assistance for Needy Families (TANF)** program—another federal/state program. TANF provides assistance (including cash payment) and work opportunities to families in need. A drop in need GR of \$8.4 million will result.

High Priority Needs (\$208.5 million) – Increases in GR funding (plus \$366.8 million in trust funds) for the following programs are assumed in the *Outlook*:

- **Medicaid** - \$22.4 million is provided to the Agency for Health Care Administration and the Department of Elder Affairs **for provider rate increases and additional waiver slots for the elderly.**
- **Children and Families** - \$82.4 million to fund increases for adoption subsidies, community-based care lead agencies, child abuse investigations, foster care room and board rates, domestic violence prevention and services, children's legal services, and mental health and substance abuse initiatives.
- **Health** - \$9.2 million to fund increases are provided for Early Steps, newborn screening, Child Protection Teams, Medical Quality Assurance, HIV/AIDS programs, epidemiology programs, three Florida Poison Control Centers, Minority Health Initiatives and the Office of Medical Marijuana Use.
- **Persons with Disabilities** - \$72.0 million is estimated to be needed to reduce the waitlist for the developmental disability waiver, supported employee and internship program enhancements, and Medicaid Waiver provider rate increases.
- **Veterans Affairs** - \$1.7 million is included for the Entrepreneurship Program, the Veterans Training Grants Program, veterans' home equipment, and handicap transport vans.
- **Elder Affairs** - \$12.2 million in additional funding is included for reducing the Community Care for the Elderly and the Home Care for the Elderly program waitlists, Alzheimer's disease respite services, Public Guardianship services, and Aging Resource Centers.
- **Information Technology** - \$6.8 million in GR (along with \$53.4 million in trust funds) to complete the Agency for Persons with Disabilities' Client Data Management System, the Department of Veterans' Affairs computer replacement program and security enhancements, the Florida Medicaid Management Information System transition, facility regulation in the Agency for Health Care Administration, Child Welfare Information Technology, continuation of the Enterprise Client Information, the Tracking System (eCIRTS) Project in the Department of Elder Affairs, cloud conversion for the Department of Children and Families' Florida Safe Families Network, and the Department of Health's Centralized Online Reporting, Tracking, and Notification Enterprise (CORTNE) Accounting and Budgeting System.

Economic Development and Transportation (Total Need - \$95.6 million GR)

Critical Needs (none) – The Department of Transportation's work program is funded by the State Transportation Trust Fund—not GR—so transportation system needs are not reflected here. DOT's work program is estimated at \$9.3 billion in FY2022-23.

High Priority Needs (\$95.6 million) – \$48.8 million in GR is included for economic development and workforce programs, including the **Job Growth Grant Fund**. The rest would go to traditional economic development programs such as **the High-Impact Performance Grant and the Brownfield Redevelopment Tax Refund and Bonus Refund** programs.

The *Outlook* assumes no new funding for any other economic development programs or additional funding for **VISIT FLORIDA**.

Funding of \$41.8 million is included for the **Department of State's grant programs—libraries, cultural affairs, and historic preservation**, as well as **election costs** and advertising **constitutional amendments**.

Funding is included for maintenance and security enhancement of **National Guard armories** and other military affairs priorities (\$4.9 million).

Criminal Justice & Courts (Total Need - \$57.3 million)

Critical Needs – No critical needs are included in the *Outlook*.

High Priority Needs (\$57.3 million) – In **Corrections**, \$17.3 million is included for the four-year transition of correctional officers from 12-hour to 8.5-hour shifts.

In **Juvenile Justice**, GR of \$6.2 million is included for **additional residential commitment beds and evidence-based programs, increased community supervision costs, and for prevention programs that target high-risk juveniles**.

Another \$23.1 million in increased costs are included for **rehabilitation programs, more cameras in corrections facilities, motor vehicles, and several information technology improvements**, including a Sexual Predator database and a Data Transparency project in the Department of Law Enforcement and the Department of Legal Affairs agency-wide technology modernization project.

In **Justice Administration**, the *Outlook* includes an increase of \$6.8 million for **due process and conflict case** costs and expected growth in costs for the state's five **Criminal Conflict and Civil Regional Counsels and Capital Collateral Regional Counsels**.

In the **Judicial Branch**, an increase of \$3.9 million is provided for **problem-solving courts**—such as drug, veterans, mental health, and early childhood courts. These are supported by Florida TaxWatch as a way to reduce recidivism and improve societal outcomes.

Natural Resources (Total Need - \$185.6 GR million)

Critical Needs – No critical needs are included in the *Outlook*.

High Priority Needs (\$185.6 million GR) – Although there are no additional critical needs identified in Natural Resources in the *Outlook*, significant high priority needs are included. Funding of \$36.5 million GR (along with \$533.7 million in trust funds) is provided for **water and land conservation**. This includes Florida Forever, Everglades restoration, water quality improvements, alternative water supply, beach restoration, and land management.

Another \$149.0 million is included for a myriad of **environmental and agricultural programs** including drinking water and wastewater loan programs, Florida Keys restoration, the Florida Resilient Coastlines Program, and agricultural and Fish & Wildlife Commission programs. Funding is based on the average of the last three years of appropriations. The Legislature is expected to continue to fund scores of **local water projects**, so the *Outlook*

includes these. Florida TaxWatch reiterates its recommendation to develop a formal, comprehensive competitive selection process for these member projects.⁷

General Government (Total Need - \$80.5 million GR)

Critical Needs (\$36.7 million GR) - State law requires the Legislature to provide money to **fiscally constrained counties** to offset property tax reductions arising from two constitutional amendments. While paid annually, this money is considered non-recurring and is not part of the budget base, so the entire payment is included in Critical Needs. This will cost \$36.6 million in the next budget.

A small increase (\$0.1 million) is expected in **Non-Florida Retirement System Pensions and Benefits** (such as for the Florida Natural Guard and disabled justices and judges).

High Priority Needs (\$43.8 million GR) - GR of \$33.7 million and \$16.4 million in trust funds is included for general repair and maintenance of the **state building pool** and \$41.7 million (\$10.1 million GR) is provided for other general government activities: the Florida Interoperability Network and Mutual Aid channels and the Statewide Law Enforcement Radio System, contract costs for the Florida Accounting Information Resource replacement, and aerial photography for small counties.

Statewide Issues (Total Need - \$294.5 million)

Critical Needs (\$181.1 million) - A 5 percent increase in agency premiums is estimated for **state employee health insurance**. The *Outlook* also assumes the Legislature will continue providing full funding to amortize any unfunded liability in the **Florida Retirement System** and the state has lowered the expected investment rate of return from 7.2 percent to 7.0 percent. Together, these two programs will increase state employee benefits costs by \$77.0 million in GR and 50.5 million in trust funds. The 2021 Annual Actuarial Valuation is not yet available, so the retirement estimate could change significantly.

The **Division of Administrative Hearings** handles disputes between the state and others, such as contractors. Assessments are paid by agencies to fund DOAH, and these vary. The mix of GR and trust funds used to pay these assessments also varies between agencies. An additional \$0.1 million in GR funding spending is expected to be needed next year, as well as a \$0.1 million increase in trust fund spending for DOAH assessments.

FEMA Match - The state matching requirement for all open federally declared disasters will require \$104.0 next year. The match typically covers previous hurricanes and natural disasters. No match is required for COVID-19 response efforts since the federal government approved a cost-share adjustment that provides for 100 percent federal funding.

High Priority Needs (\$113.4 million GR) - A total of \$90.6 million (\$58.6 million GR) is provided for **state employee bonuses and competitive, merit, minimum wage pay adjustments** and \$75.8 million (\$21.0 million GR) is provided for **critical capital improvements of state buildings**.

⁷ Florida TaxWatch, The 2020 Budget Turkey Watch Report: An analysis of the transparency and accountability of the budget process, June 2020.

CONCLUSION

Projected budget shortfalls have been commonplace in Florida, even in better economic times. In each of the last five years, the *Outlook* estimated shortfalls in at least two of the three years in the forecast. Last year's *Outlook* predicted a \$2.7 billion shortfall.

The change in fiscal fortune for Florida in the last year has been incredible. Instead, of facing large deficits and deep spending cuts, the 2021 Legislature passed the largest budget in history, while leaving a record amount of reserves and even providing some tax relief. Most of expected cuts were scrapped, and big investments were made in many areas. The FY2021-22 state budget totals \$101.7 billion, a \$9.4 billion (10.2 percent) increase, the largest percentage growth in 15 years. Even more remarkable, the budget also appropriated an additional \$15.4 billion in federal funds that is not included in the \$101.7 billion total. If it were counted, the new budget would be a nearly \$25 billion increase over current spending.

Revenue collections are now back above pre-pandemic levels, and further strengthened by two new revenue streams: the Seminole Gaming Compact and the collection of sales taxes on online sales. The result is predicted budget surpluses of \$7-\$10 billion over the next three years.

Federal funds have been a huge part of the turnaround. Tens of billions in aid have shored up general revenue and helped avoid deficits, relieved some of the pressure on state funds to pay for government, and reimbursed the state for Covid-19 response costs. In addition, a stronger than expected economic response to the federal stimulus packages is a key reason state revenue collections have quickly rebounded back to pre-pandemic levels.

Florida is in a very strong fiscal position, perhaps the best in history. But the Legislature must still be careful with all this extra money and not use non-recurring revenue for recurring expenses. Florida's state and local governments should remember a lesson learned back in 2007—when the housing bubble burst—about what can happen when you spend windfall revenue and things suddenly turn south.

APPENDIX

WHAT IS THE LONG-RANGE FINANCIAL OUTLOOK?

The *Long-Range Financial Outlook* is a valuable, constitutionally required budget planning tool that looks ahead three years, comparing estimated revenues and expenditures. This summer's round of state estimating conferences 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. The *Outlook* focuses on General Revenue (GR)--the funds that can be spent by the Legislature on anything and that are major source of funding for education, human services and criminal justice. The *Outlook* also forecasts some trust funds that can affect the need for GR spending in certain areas of the budget, such as the Educational Enhancement Trust Fund, which provides lottery and slot machine revenue for education.

The *Outlook* first projects the amount of GR that will be available for the budget. That amount is then compared to the base budget (recurring appropriations in the current budget) plus an estimate of increased spending needed for a "continuation budget." The difference in projected revenues and expenditures is the projected surplus or shortfall, after assuming the Legislature will leave some GR unobligated for cash reserves.⁸

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. New initiatives and funding increases above what is required are not included. For example, the cost of funding additional Medicaid enrollees is included as a critical need but added services or increased provider payments are not. Historically, maintaining per-student PreK-12 student funding levels and increased Medicaid costs make up the vast majority of these new "critical needs." **High Priority Needs** are historically funded issues that are typically viewed as "must fund" in normal budget years. These can include the continued funding of programs paid for with non-recurring revenues, as well as non-mandatory increases for recurring programs. These are usually calculated by using the three-year average appropriations for that program. Adding these two categories to the recurring expenditures in the current budget comprises what can be thought of as a continuation budget.

In 2015, the *Outlook* began assuming the Legislature will cut taxes (reducing GR) and sweep trust funds⁹ (increasing GR). These are estimated using the average of the previous three years, adjusted for statutory "reverse transfers" from GR to trust funds. These two changes are subtracted/added to the estimate of available GR. So far, the estimate of trust fund sweeps has been larger than the tax cut estimate, so this has improved the budget outlook in the first year. However, since a portion of the tax cuts is considered recurring, while the sweeps are non-recurring, the impact of the tax cuts compounds over time.

⁸ Historically, the Outlook assumed the Legislature will leave \$1.0 billion in reserves, a level Florida TaxWatch has cited as being too low. This year, the Outlook assumed cash reserves of 3.9 percent of estimated total GR. This amounts to \$1.5 billion in the first year, growing to \$1.6 billion in two years.

⁹ The Legislature often transfers money from trust funds, which has specified uses, to GR, which may be used for anything. For more information see Florida TaxWatch, Putting the Trust Back in Trust Funds, March 2014 and The Legislature Must Stop Diverting Affordable Housing Funding, April 2019.

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