

ANALYSIS OF THE HOUSE AND SENATE PROPOSED BUDGETS FOR FY2015-16

The House and Senate released their respective budgets for FY2015-16 following the third week of the legislative session and voted them out of the appropriations committees this week. They will now go to the floor in the two chambers. The House has also released its proposed tax cut package of \$690.1 million, the centerpiece being a 3.6 percentage point reduction in the Communications Services Tax on wireless phone, cable and satellite television, and non-residential landline services. The Senate has said it will wait until some health care funding issues have been resolved before deciding on its tax package (see Human Services section on page 3). Lawmakers got some good news last week when the latest revenue estimates provided an additional \$143.0 million in general revenue for the new budget (see General Revenue Estimating Conference on page 9 for more information).

The House budget totals \$76.154 billion and the Senate budget comes in at \$80.425 billion, which would be the largest budget in history. The House proposal is \$826 million (1.1 percent) less than the Governor's recommended budget and \$919 million (1.2 percent) less than current year spending. The Senate budget would be a 4.3 percent increase over current year spending. The higher Senate budget is due to a proposed increase in federal dollars being drawn down (see Human Services section on the next page). In fact, the Senate spends \$229 million in general revenue less than the House.

COMPARISON OF PROPOSED BUDGETS (\$ billions)

	TOTAL	GEN. REVENUE	TRUST FUNDS	POSITIONS
CURRENT YEAR	\$77.073	\$27.914	\$49.108	1114,503
GOVERNOR'S BUDGET	\$76.980	\$28.329	\$48.651	113,485
HOUSE BUDGET	\$76.154	\$28.376	\$47.779	113,653
SENATE BUDGET	\$80.425	\$28.147	\$52.278	114,538

FY2015-16 HOUSE AND SENATE BUDGET RECOMMENDATIONS COMPARED TO CURRENT YEAR

(\$millions)

DEPARTMENT/AGENCY	HOUSE BUDGET	SENATE BUDGET	HOUSE +/- SENATE	CURRENT YEAR	HOUSE +/- CURRENT	SENATE +/- CURRENT
Admin. Funds (Statewide)	\$(1.0)	\$110.6	(\$111.6)	\$54.2	(\$55.2)	\$56.4
Ag. & Consumer Services	\$1,583.1	\$1,497.1	\$86.0	\$1,532.8	\$50.3	(\$35.7)
Business & Professional Reg.	\$151.2	\$148.1	\$3.1	\$147.8	\$3.4	\$0.3
Children & Families	\$2,974.7	\$2,956.7	\$18.0	\$2,892.3	\$82.4	\$64.4
Citrus	\$48.3	\$48.8	(\$0.5)	\$52.4	(\$4.1)	(\$3.6)
Comm. on Offender Review	\$10.1	\$9.7	\$0.4	\$9.6	\$0.5	\$0.1
Corrections	\$2,348.9	\$2,359.0	(\$10.1)	\$2,307.8	\$41.1	\$51.2
Economic Opportunity	\$963.4	\$1,167.4	(\$204.0)	\$1,120.3	(\$156.9)	\$47.1
Education	\$23,277.6	\$22,734.8	\$542.8	\$22,588.4	\$689.2	\$146.4
Elder Affairs	\$293.6	\$284.4	\$9.2	\$294.5	(\$0.9)	(\$10.1)
Environmental Protection	\$1,820.0	\$1,345.2	\$474.8	\$1,564.7	\$255.3	(\$219.5)
Financial Services	\$326.3	\$322.4	\$3.9	\$327.0	(\$0.7)	(\$4.6)
Fish & Wildlife Conservation	\$403.8	\$373.8	\$30.0	\$366.1	\$37.7	\$7.7
Governor's Office	\$369.9	\$367.9	\$2.0	\$259.0	\$110.9	\$108.9
Health	\$2,789.5	\$2,824.8	(\$35.3)	\$2,843.1	(\$53.6)	(\$18.3)
Health Care Administration	\$22,887.6	\$27,854.0	(\$4,966.4)	\$24,585.3	(\$1,697.7)	\$3,268.7
Hwy Safety & Motor Veh.	\$439.7	\$450.3	(\$10.6)	\$440.5	(\$0.8)	\$9.8
Justice Administration	\$856.0	\$851.5	\$4.5	\$854.0	\$2.0	(\$2.5)
Juvenile Justice	\$537.5	\$527.0	\$10.5	\$550.7	(\$13.2)	(\$23.7)
Law Enforcement	\$270.1	\$268.0	\$2.1	\$260.7	\$9.4	\$7.3
Legal Affairs	\$203.1	\$202.0	\$1.1	\$202.5	\$0.6	(\$0.5)
Legislature	\$203.8	\$203.8	\$-	\$204.0	(\$0.2)	(\$0.2)
Lottery	\$169.5	\$165.1	\$4.4	\$163.7	\$5.8	\$1.4
Management Services*	\$692.7	\$688.8	\$3.9	\$688.5	\$4.2	\$0.3
Military Affairs	\$84.1	\$75.6	\$8.5	\$114.5	(\$30.4)	(\$38.9)
Persons with Disabilities	\$1,161.7	\$1,199.2	(\$37.5)	\$1,153.5	\$8.2	\$45.7
Public Service Commission	\$25.3	\$25.1	\$0.2	\$25.5	(\$0.2)	(\$0.4)
Revenue	\$573.7	\$574.0	(\$0.3)	\$561.2	\$12.5	\$12.8
State	\$130.1	\$113.2	\$16.9	\$160.0	(\$29.9)	(\$46.8)
State Courts	\$509.3	\$519.4	(\$10.1)	\$515.9	(\$6.6)	\$3.5
Transportation	\$9,942.0	\$10,048.3	(\$106.3)	\$10,117.9	(\$175.9)	(\$69.6)
Veterans Affairs	\$108.5	\$108.6	(\$0.1)	\$114.5	(\$6.0)	(\$5.9)
Totals	\$76,154.2	\$80,424.6	(\$4,270.4)	\$77,073.0	(\$918.9)	\$3,351.6

* includes the new Agency for State Technology / Source: Florida TaxWatch, compiled using data from the Florida Legislature and the Executive Office of the Governor, March 2015

Human Services

The most significant fiscal decision facing the Legislature this session accounts for the largest difference in the two budgets.

The issue is the loss of federal funds for the Low-Income Pool (LIP), which provides more than \$2 billion to hospitals and other providers to fund care for indigent residents and other Floridians in need. Under LIP, funds contributed by local governments are combined with federal matching funds. LIP has existed since 2006, but the federal government has made it clear it will not continue funding the current program. Without the added return the federal funds provide, locals may not choose to continue to contribute.

The House budget does not include funding for LIP, while the Senate has created an alternative plan for LIP and funds it at \$2.17 billion. The Senate is confident its new LIP design satisfies the federal objections to the current program and expects approval by the federal government. The plan directs more funds to increase base hospital rates and more broadly distributes LIP dollars. Funds previously allocated to specific hospitals will instead be distributed in a broad-based system so that all hospitals can benefit.

The Senate combines the redesigned LIP with its Florida Health Insurance Affordability Exchange (FHIX) program to provide private health coverage for up to one million low-income Floridians that are below 133 percent of the federal poverty level and who are not already covered by Medicaid. This program is a market-based alternative to Medicaid expansion under the federal Affordable Care Act, but the hope is it will still allow Florida to draw down billions in federal funding, \$2.8 billion in this first year.

As a result, the Senate's budget provides the Agency for Health Care Administration with \$27.9 billion, while the House's only allocates \$22.9 billion, a \$5 billion difference. The differences in funding the other agencies in the Human Services area of the budget are not that significant (see table on page 2). Both budgets would increase funding for the Department of Children and Families, with the House providing an \$82.4 million increase, \$18.0 million more than the Senate. The House also provides \$9.2 million more than the Senate for the Department of Elder Affairs, but the House amount is still slightly less than current year funding. The Senate provides more funding for the House for the Department of Health, the Agency for Persons with Disabilities and the Department of Veterans Affairs.

Both the House and Senate propose to increase funding for Community Mental Health Services by more than \$110 million and Community Substance Abuse Services by more than \$80 million.

Education

Although both chambers increase education spending, they fall short of the Governor’s recommendation of a per-student K-12 funding level that exceeds the previous highest amount in history by \$50.

The House provides a total education budget of \$22.278 billion, \$542.8 million more than the Senate. Most of that difference is due to the House spending \$449.0 million more in Public Education Capital Outlay (PECO) funds for educational facility construction and maintenance. The House provides \$113.7 million more for college construction projects and \$233.8 million more for university construction. The House also provides \$100 million for maintenance of charter schools, while the Senate provides no funding.

The House also provides \$19.0 million more for the Florida Education Finance Program (FEFP), which funds public schools (see table below). The \$19.7 billion in House FEFP funding allows for per-student funding of \$7,130. The Senate provides \$7,123. Current year funding is \$6,195 per student, and Governor Scott recommended per student funding of \$7,176. While not as high as the Governor’s funding level, the House does slightly exceed the previous high of \$7,126 in FY2007-08. The Senate falls just below that high-water mark. It must be noted that even the Governor’s level does not equal record funding when adjusted for inflation. The Senate does not provide funding for the new Digital Classrooms FEFP allocation, which was given \$40 million in the current year for technology in schools. The House and the Governor want to double that appropriation.

Nearly two-thirds of the approximately \$750 million increase in total FEFP funding in the House and Senate budgets is local funds. This means property taxpayers will pay \$494 million more in school property taxes.

FUNDING FOR THE FLORIDA EDUCATION FINANCE PROGRAM (FEFP)

	CURRENT YEAR	HOUSE	SENATE	HOUSE INCREASE	SENATE INCREASE
State Funds	\$10,647,648,670	\$10,918,070,027	\$10,899,041,569	\$270,421,357	\$251,392,899
Local Funds	\$8,257,084,966	\$8,750,902,490	\$8,750,906,138	\$493,817,524	\$493,821,172
Total Funds	\$18,904,733,636	\$19,668,972,517	\$19,649,947,707	\$764,238,881	\$745,214,071
Per Student	\$6,915.00	\$7,129.74	\$7,122.85	\$214.74	\$207.85

In higher education, the House funds state universities at \$4.506 billion, which is \$20.2 million more than the Senate. The Senate funds state colleges at \$1.195 billion, which is \$35.9 million more than the House. Colleges would receive a slight increase of 1.1 percent over current funding in the House budget, the Senate funds a 4.2 percent increase. Both budgets provide universities with an increase of approximately 3 percent. The Senate provides \$400 million for university performance funding, \$200 million of which is new state dollars and \$200 million would be redistributed from the base. The House provides \$200 million, \$100 million of which is new. The Legislature would also create a new performance funding system for colleges. The Senate offers \$60 million and the House offers \$20 million.

Agriculture and the Environment

Both chambers are implementing Amendment 1, approved by the voters in November. The amendment requires 33 percent of documentary stamp taxes to be distributed to the Land Acquisition Trust Fund (LATF) for specified environmental purposes, led by state purchases of land for conservation, wildlife habitat and protection of water resources. This year, the LATF will receive \$741.8 million in documentary stamp taxes. However, both budgets, particularly the Senate, fall short of what the amendments backers were expecting in terms of land acquisition.

The Senate only includes \$2 million for Florida Forever, the state's main land buying program. An amendment to add \$350 million to Florida Forever through bonding was debated in the Senate Appropriations Committee, but was voted down. The House has \$205 million for Florida Forever, but most of that is directed to other projects, such as \$100 million for water management districts to fund water resource programs. Both chambers provide \$20 million to acquire land related to the restoration of the Kissimmee River.

As the Florida TaxWatch analysis of Amendment 1 predicted, the list of approved uses gives the Legislature a lot of flexibility, so it is not certain the amendment will increase land buying or even environmental spending. Amendment 1 does not provide new money, it just redirects it. In fact, the proposed Senate budget for the Department of Environmental Protection is \$219.5 million less than current spending. Both chambers use the LATF to fund some agency operations (including the Agency for Persons with Disabilities and the Department of State's Division of Cultural Affairs) and other programs that were previously funded with general revenue or other trust funds, such as beach restoration and historic preservation grants.

Other Environmental Funding Highlights

Everglades Restoration – the House provides \$139.1 million, the Senate provides \$86.1million.

Drinking Water Revolving Loan Program – both budget include \$95.9 million.

Wastewater Revolving Loan Program – both budgets provide 191.1 million.

Local Water Projects – the House has \$80.6 million for some not-yet-named projects. The Senate does not fund any local projects.

Springs Restoration – the Senate provides \$50.0 million and the House provides \$15.0 million, plus \$50.0 million for land acquisition to protect priority springs.

Beach Renourishment – the Senate provides \$40.0 million, the House provides \$25 million, both down from \$45.1 million last year

Transportation and Economic Development

The House and Senate budgets both fully fund the Department of Transportation’s (DOT) \$9.3 billion work program, which makes up most of DOT’s budget. The total DOT budget is \$9.942 billion in the House and \$10.048 billion in the Senate. The difference is due in part to the Senate funding the Small County Road Assistance Program at \$50.0 million, almost twice as much as the House. The Senate also puts \$9.0 million more Small County Outreach Program than the House. Neither chamber “sweeps” the State Transportation Trust Fund.

The Senate recommends \$1.167 billion for the Department of Economic Opportunity (DEO), \$204.0 million more than the House. Current spending for DEO is \$1.120 billion, and the Governor had recommended \$1.051. The Senate provides \$180.8 million for DEO’s Strategic Business Development program, \$50.5 million more than the House. This program includes:

Enterprise Florida – the Senate provides \$19.3 million, the House provides \$15.0 million.

Visit Florida - Both chambers provide \$74.0 million.

Space Florida – The Senate provides \$12.5 million, the House provides \$19.5 million.

The Governor had recommended \$85.0 million for economic development tools, programs such as the Quick Action Closing Fund and the Qualified Target Industry Business Tax Refund, which provide incentives for business investment in Florida. The Senate provided \$23.8 million and the House did not including any funding. Legislation is moving through both chambers that would change these programs. Contingent on legislation passing to create the program, the Senate provides \$10.0 million for a new Qualified Television Revolving Loan Fund.

Criminal Justice and Courts

The two chambers are very close on the Criminal Justice budget area. The House provides \$4.226 billion, while the Senate provides \$4.217 billion. The largest agency in this area, the Department of Corrections (DOC), receives \$2.359 billion in the Senate and \$2.349 billion in the House. Both chambers fund the current \$15.8 million operational deficit in DOC. Both budgets fund a number of successful re-entry programs aimed at reducing recidivism and provide \$9.1 million for electronic monitoring, a \$600,000 increase from the current year.

The House and Senate budgets seek to settle a dispute between the state and counties on how to split juvenile detention costs. The House proposes the counties pay 57 percent and the state pay 43 percent. The Senate proposes a 60/40 split. The Senate provides \$15.7 million for the current year deficit in the detention program, and the House provides \$12.9 million.

The Senate is proposing \$10.1 million more for the state court system than the House, mostly due to providing funding for courthouse construction. Both budgets fund a \$15.0 million shortfall in the current state courts budget.

MORE SPENDING COMING?

The state budget tends to get larger after the initial versions, and this year should be no different as there is still a significant amount of GR that has not be appropriated. The latest General Revenue Estimating Conference set the amount of GR available for the FY2015-16 budget at \$30.775 billion (see table below). Both budgets sweep trust fund money into GR, increasing the amount available.

GENERAL REVENUE STILL AVAILABLE (\$ billions)

	HOUSE	SENATE
AVAILABLE GR	\$30,774.7	\$30,774.7
TRUST FUND SWEEPS	\$124.2	\$332.2
TOTAL AVAILABLE GR	\$30,898.9	\$31,106.9
PROPOSED GR SPENDING	\$28,375.6	\$28,147.1
REMAINING GR	\$2,523.3	\$2,959.8
TRANSFER TO BSF*	(\$214.0)	(\$214.0)
GR RESERVES**	(\$1,100.0)	(\$1,100.0)
REMAINING GR	\$1,209.3	\$1,645.8
* a required transfer to the Budget Stabilization Fund		
** the Senate amount is an estimate		

After subtracting the GR spending in the budgets, a required transfer to the Budget Stabilization Fund and an allocation for GR reserves, the House budget leaves \$1.2 billion in available GR and the Senate budget leaves \$1.6 billion. House documents show it is contemplating a \$1.1 billion reserve, whereas the Senate planned reserve is unclear. This amount may increase, as the Senate in recent years has advocated a reserve of at least \$1.5 billion, which would decrease the amount of GR still available.

Some of this available GR will surely be used to cut taxes. The House has already announced a proposed \$690.1 million tax cut package, which would reduce GR in the next budget year by \$608.4 million. The Senate is waiting to develop its tax package, but its Finance and Tax Committee has already advanced several bills containing hundreds of millions in tax cuts. Tax cuts, like most everything in the budget, will be a bargaining chip as budget negotiations proceed. Even assuming \$600 million in tax cuts, the House still has \$600 million to spend and the Senate has more than \$1 billion.

Some of the available GR will also be used to fund millions of dollars that are appropriated in substantive bills.

Much of this money will likely be allocated during the budget conference. This occurs after both chambers have passed their budgets and the conference negotiates the final compromise. Funding levels are often increased during conference and this is also a time when local member projects are added, usually without public debate or discussion. These projects are highlighted in the annual Florida TaxWatch Turkey Watch Report.

This session, Florida TaxWatch commends the Legislature for instituting some review of local member projects. Senator Jack Latvala, chair of the Appropriations Subcommittee on Transportation, Tourism, and Economic Development; Senator Don Gaetz, chair of the Appropriations Subcommittee on Education; and Representative Richard Corcoran, chair of the Appropriations Committee have all had procedures designed at increasing the openness and accountability of appropriating local projects. These types of processes should be encouraged and increased, and Florida TaxWatch recommends that that the benefits this provides are not scuttled by adding projects in conference.

GENERAL REVENUE ESTIMATES ADDS \$143 MILLION FOR THE NEXT STATE BUDGET

Although the new GR estimate for FY2014-15 (the current year) was only increased by \$0.5 million, the estimate for FY2015-16 was increased by \$145.4 million. This means that, after a couple adjustments to the GR outlook statement, the 2015 Legislature will have \$143.0 million more in GR than previously anticipated (after the December 2014 conference). Lawmakers will have \$30.775 billion in GR available for the next state budget, which is more than \$2.387 billion more (8.4 percent) than is being spent this year.

The increased estimate was driven by low gas prices, which freed up money for consumers to make other purchases, boosting sales tax collections by \$261.0 million over the two year period. On the downside, lower than expected housing activity led to a \$61.2 million reduction in the estimates for documentary stamp and intangibles taxes. The estimate for insurance premium taxes was also reduced by \$124.1 million over the two years because of effects of the Affordable Care Act. The forecasters said, “First, the previous estimates had assumed that existing policy holders would experience greater increases in premium costs than seem to be the case. Second, it appears that some previously covered individuals and small employers have turned to the Federal Health Insurance Marketplace to find more affordable insurance.”

Total GR collections are now estimated to total \$27.486 billion this year and \$28.724 next year. This is annual growth of 4.9 percent and 4.5 percent, respectively. Growth in the last three years of the forecast is estimated at 5.0 percent, 4.5 percent, and 3.3 percent.

CHANGES IN GENERAL REVENUE ESTIMATES (\$ billions)

FISCAL YEAR	DECEMBER ESTIMATE	MARCH ESTIMATE	CHANGE IN ESTIMATE	CHANGE VS. PRIOR YEAR
2013-14 (actual)	\$26,198.0	\$26,198.0	-	\$883.4
2014-15	\$27,485.4	\$27,485.9	\$0.5	\$1,287.9
2015-16	\$28,578.5	\$28,723.9	\$145.4	\$1,238.0
2016-17	\$30,000.5	\$30,171.8	\$171.3	\$1,447.9
2017-18	\$31,357.4	\$31,530.3	\$172.9	\$1,385.5
2018-19	\$32,441.4	\$32,572.6	\$131.2	\$1,042.3
2019-20	\$33,548.6	\$33,664.9	\$116.3	\$1,092.3

The added funds will certainly help the Legislature in putting together the next budget, but they still face some challenges. Although there is a surplus of more than \$1 billion, expectations to significantly cut taxes and increase funding for education and the environment would take most of those extra dollars. Add in the probable loss of up to \$1.3 billion in federal funding for the Low Income Pool for hospitals, and lawmakers may again be struggling to put a balanced budget together.

CHANGE IN GENERAL REVENUE ESTIMATES BY SOURCE
(\$ millions)

Revenue Source	FY2014-15	FY2015-16	Total
<i>Increased Estimates</i>			
Sales Tax	\$111.1	\$149.9	\$261.0
Corporate Income Tax	\$59.0	\$60.4	\$119.4
Highway Safety Licenses/Fees	\$10.7	\$11.8	\$22.5
Earnings on Investments	\$8.7	\$6.5	\$15.2
Indian Gaming Revenue	\$0.0	\$2.9	\$2.9
Tobacco Tax	\$1.3	\$1.3	\$2.6
<i>Decreased Estimates</i>			
Insurance Premium Tax	(\$82.8)	(\$41.3)	(\$124.1)
Documentary Stamp Tax	(\$31.1)	(\$24.2)	(\$55.3)
Court Fees	(\$5.9)	(\$3.1)	(\$9.0)
Intangibles Tax	(\$3.0)	(\$2.9)	(\$5.9)
Severance Tax	(\$2.1)	(\$2.4)	(\$4.5)
Other Sources and Refunds	(\$65.4)	(\$13.5)	(\$78.9)
Total	\$0.5	\$145.4	\$145.9

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Kurt Wenner, Vice President for Tax Research, is a mainstay on the Tallahassee state budget watchdog scene and is the second-longest serving staff member of Florida TaxWatch. Kurt has authored all of the major tax publications produced by Florida TaxWatch, including pieces on Florida's Intangibles Tax, and general sales, property, and business tax issues. Kurt is the author of TaxWatch staples "How Florida Compares," the annual "Taxpayer Independence Day" report on tax burdens, and the annual "Budget Turkey Watch."

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Florida TaxWatch is supported by voluntary, tax-deductible donations and private grants, and does not accept government funding. Donations provide a solid, lasting foundation that has enabled Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves for the last 35 years.

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