

# BUDGET WATCH



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## **Governor Releases \$61.6 Billion State Budget for FY 2005-06; Includes \$285 Million for Tax Relief**

Governor Bush has released his proposed FY 2005-06 budget for the State of Florida and it is a good starting point for the upcoming budget negotiations during the general legislative session that begins in March. His budget recommendation would continue a positive trend that has seen the state make spending enhancements and set aside significant reserves, all without raising taxes and—in fact—cutting taxes.

The Governor's proposed budget totals \$61.6 billion, a 1.6% increase over current year spending. When hurricane-related spending is removed from both budgets, the increase is 3.4%.

The state's economy and tax structure have continued to perform well. State general revenue collections have increased 9.2% and 8.3% in the last two years (see table on page 2). The state is expecting several hundred million dollars more to come in from the hurricane rebuilding efforts, but since that money has not yet been officially estimated, the Governor could not budget it.

Still, the Governor had \$4.4 billion in new general revenue to spend for 2005-06 (60% of it non-recurring.) Under the proposed budget, this is where most of that new money would go:

- \$1.373 billion (31%) – Education
- \$713 million (16%) – Health and Human Services
- \$690 million (15%) – Budget Stabilization fund and other reserves
- \$486 million (11%) – Cash paid instead of debt
- \$312 million (7%) – Public Safety
- \$256 million (6%) – Tax relief

**GENERAL REVENUE RECEIPTS BY SOURCE\***  
(Dollars in Millions)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Sales Tax	\$13,952	\$14,148	\$14,488	\$15,754	\$17,250	\$18,106
Beverage Tax & Licenses	523	526	539	573	566	578
Corporation Income Tax	1,345	1,219	1,228	1,345	1,446	1,773
Documentary Stamp Tax	479	603	841	1,181	1,237	1,291
Tobacco Taxes	274	276	273	276	275	279
Insurance Premiums Tax	283	331	411	492	527	570
Pari-Mutuels Tax	17	19	17	24	16	15
Intangibles Tax	661	727	765	795	876	701
Estate Tax	767	751	558	383	305	53
Interest	301	227	272	194	261	289
Public Safety Licenses & Fees	63	59	61	67	70	71
Medical & Hospital Fees	127	135	141	166	179	184
Motor Vehicle Fees	44	39	40	43	0	0
Auto Title & Lien Fees	29	28	28	32	32	33
Severance Tax	21	18	21	5	20	20
Service Charges	365	347	386	433	439	404
Other Taxes, Licenses & Fees	275	282	299	420	516	490
Refunds	340	392	394	371	397	410
<b>Net General Revenue Collections</b>	<b>\$19,185</b>	<b>\$19,341</b>	<b>\$19,976</b>	<b>\$21,809</b>	<b>\$23,618</b>	<b>\$24,447</b>
<b>Percent Change</b>	<b>2.0%</b>	<b>0.8%</b>	<b>3.3%</b>	<b>9.2%</b>	<b>8.3%</b>	<b>3.5%</b>
<b>Per Capita GR Collections</b>	<b>\$1,181</b>	<b>\$1,166</b>	<b>\$1,177</b>	<b>\$1,253</b>	<b>\$1,328</b>	<b>\$1,347</b>
<b>GR Coll. as % of Personal Income</b>	<b>4.1%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.2%</b>	<b>4.2%</b>	<b>4.1%</b>

*Note: Forecast reflects the Governor's proposed tax changes.*

*Source: Executive Office of the Governor, January 2005.*

## Tax Relief

The Governor touted the tax relief granted in recent years as one of the key reasons for Florida's job growth and strong revenue collections. He pledged to continue to push this and his proposal includes the following new tax relief issues, several of which are recommended by Florida TaxWatch. The Governor's package totals \$285 million in first year tax reductions and \$420.1 million on a recurring basis. The general revenue portion this tax relief is \$256.4 in the first year and \$394.6 recurring. He proposes to pay for this by redirecting \$468.6 million in documentary stamp and beverage taxes from trust funds to general revenue.

**Repeal of the Substitute Communications Tax.** Florida TaxWatch believes the repeal of this tax should be the number one tax priority for the coming session. The repeal was recommended by Florida TaxWatch's Substitute Communications Task Force, chaired by David A. Smith, President and CEO of PSS WorldMedical.

***A two-year phase-out of the remaining intangibles tax on stocks and bonds.*** This will be done by reducing the millage rate—the approach recommended by Florida TaxWatch’s Intangibles Tax Task Force. This will save taxpayers \$132.2 million next year and \$293.8 million annually after the tax is fully repealed.

***A sales tax exemption for Research and Development (R&D)*** equipment worth \$33.7 million. This was part of the recommendations of Florida TaxWatch’s Task Force on Tax System Modernization.

***An expanded sales tax exemption for manufacturing machinery and equipment*** worth \$34.8 million. Another long-standing Florida TaxWatch recommendation.

***Repeal of the remaining portion of the alcoholic beverage “by-the-drink” tax*** worth \$47.2 million. Another long-standing Florida TaxWatch recommendation.

***Another nine-day sales tax holiday on clothing and books*** - \$35.5 million

***An extension of the \$10 million Community Contribution Tax Credit*** for affordable housing and community improvement.

***A \$2.1 million tax incentive package to promote clean hydrogen technology.***

Florida TaxWatch hopes the Governor and the Legislature will also promote Florida’s full participation in the Streamlined Sales Tax Project to help collect the estimated \$2-3 billion annually owed Florida from internet and other remote sales.

## **Pay As You Go**

Florida TaxWatch commends the Governor for his continued support of paying cash instead of issuing bonds. His proposed budget uses \$485.6 million in cash to avoid issuing more debt on Florida Forever (\$300 million), Everglades restoration (\$100 million) and class-size reduction capital outlay (\$85.6 million.)

The Governor also pledged to emphasis efficiency improvements and highlighted two proposals in his budget. He is recommending a reorganization of the State Technology Office and the creation of a State Procurement Office.

## **Budget Highlights**

***State Employees.*** The budget provides \$77.8 million for a 2.5% state employee pay raise to take effect December 1, 2005. He is also proposing health savings accounts for state employees with a dollar-for-dollar state match.

***Education.*** The budget has \$17 billion for K-12 education, an increase of \$1.1 billion (7.7%). This increases per-student spending 5.5% to \$6,370. This includes \$400 million for universal pre-k, in addition to \$662 million for school readiness funding. Class-size reduction is funded at \$500 million.

## Governor's Budget Recommendations Compared to Current Budget

By Agency  
(\$ in millions)

Agency	Gov's Recs 2005-06	Current Budget 2004-05	Difference \$	Difference %
	Dollars	Dollars		
Administered Funds (Statewide)	\$521.8	\$276.6	\$245.2	88.6%
Agency For Health Care Administration	15,093.5	14,794.2	299.3	2.0%
Agency For Persons With Disabilities *	1,034.0	0.0	1,034.0	100.0%
Agency For Workforce Innovation	1,538.0	1,189.1	348.9	29.3%
Agriculture And Consumer Services	324.8	379.6	(54.8)	-14.4%
Business And Professional Regulation	153.9	154.0	(0.1)	-0.1%
Children And Families *	2,878.9	3,823.3	(944.4)	-24.7%
Citrus	70.5	70.7	(0.2)	-0.2%
Community Affairs	2,320.9	1,320.0	1,000.9	75.8%
Corrections	2,221.4	2,047.2	174.2	8.5%
Education	18,932.0	18,031.3	900.7	5.0%
Elder Affairs	360.5	356.5	4.0	1.1%
Environmental Protection	2,185.2	2,197.5	(12.3)	-0.6%
Executive Office Of The Governor	146.5	141.2	5.3	3.8%
Financial Services	276.8	444.0	(167.2)	-37.7%
Fish And Wildlife Conservation Commission	221.3	225.8	(4.5)	-2.0%
Health	2,223.7	2,211.6	12.1	0.6%
Highway Safety And Motor Vehicles	396.6	376.3	20.3	5.4%
Justice Administration	647.7	656.7	(9.0)	-1.4%
Juvenile Justice	651.0	705.3	(54.3)	-7.7%
Law Enforcement	294.5	290.9	3.6	1.3%
Legal Affairs	161.5	156.6	4.9	3.2%
Legislative Branch	192.8	189.8	3.0	1.6%
Lottery	146.1	176.8	(30.7)	-17.4%
Management Services	537.6	529.4	8.2	1.5%
Military Affairs	60.3	51.3	9.0	17.5%
Parole Commission	12.1	9.4	2.7	28.4%
Public Service Commission	26.2	27.7	(1.5)	-5.2%
Revenue	518.3	588.9	(70.6)	-12.0%
State	131.2	155.5	(24.3)	-15.6%
State Court System	399.2	395.9	3.3	0.8%
Transportation	6,752.9	6,550.8	202.1	3.1%
Veterans' Affairs	53.1	54.9	(1.8)	-3.4%
<b>Total</b>	<b>\$61,484.5</b>	<b>\$58,578.6</b>	<b>\$2,905.9</b>	<b>5.0%</b>

Source: Executive Office of the Governor, January 2005.

**Governor's Budget Recommendations Compared to Current Budget**  
By Program Area  
(\$ in millions)

	Governor's Recs		Current Budget		Difference	
	Dollars	Positions	Dollars	Positions	Dollars	Positions
Education	\$16,181.3	1,431	\$15,308.4	1,415	\$872.8	16
Economic Opportunities	8,402.0	6,836	7,831.8	7,059	570.2	-223
Public Protection	6,474.5	54,913	5,850.0	54,183	624.5	730.5
Health And Human Services	21,466.1	25,192	20,818.0	26,155	648.0	-963
Natural Resources And Environment	2,387.0	4,875	2,413.1	4,860	(26.2)	15
State Courts	375.8	3,926	370.8	3,688	5.0	238
Governmental Operations And Support	4,196.6	18,968	3,956.7	18,958	239.9	10
Other Fixed Capital Outlay	2,001.3	0	2,029.7	0	(28.4)	0
<b>Total: Policy Areas</b>	<b>\$61,484.5</b>	<b>116,140</b>	<b>\$58,578.6</b>	<b>116,317</b>	<b>\$2,906.0</b>	<b>-176.5</b>

Source: Executive Office of the Governor, January 2005.

**Education (continued)**

The budget includes \$1.5 billion for community colleges and \$2.9 million for the state university system. \$196 million is also provided for post-secondary matching grants to be shared with community colleges and universities.

Tuition increases of 5% for community colleges and 7.5% for university undergrads are proposed. The Governor also wants universities to be able to set their own tuition rates for graduate students and non-residents.

The budget provides \$119.2 million for needs-based financial aid, a \$28.6 million increase, which the governor said is the largest in history.

**Health and Human Services.** The Governor recommends \$14.7 billion for the state's Medicaid program, a \$707 million increase, \$989 million for child welfare, \$1.3 billion for the developmentally disabled and \$53.1 for veterans' services.

**Public Safety.** Citing Florida's lowest crime rate in 33 years and his desire to ensure criminals serve at least 85% of their sentences, the Governor is proposing \$118 million to build 4,626 new prison beds and an extra \$16.3 million for any prison beds needed above current projections. He is also recommending \$10.2 million for 110 new judges.

**Environment.** As mentioned earlier, \$300 million is provided for Florida Forever and \$100 for the Everglades. In addition to the \$68 million appropriated in special session, \$72 million is provided for beach renourishment. Water Quality programs are funded at \$65 million.

***Economic Development.*** The budget provides a 6% increase, bringing the total to \$117 million. This includes \$37.9 million in incentives, \$24.7 million for Visit Florida, \$15.0 million for Enterprise Florida and \$5.1 million to promote the film industry in Florida.

***Transportation.*** The budget has a \$6 billion Department of Transportation Work Program, a 5% increase over the current year. This includes \$2.0 billion for system maintenance and \$2.1 billion in new contracts.

***Hurricane Relief.*** Including the \$360 million appropriated in special session, the Governor's budget anticipates that more than \$950 million in state funds and \$3.7 billion in federal funds will be expended for the disaster recovery effort.

***Reserves.*** Although down from the very high reserve levels of the last two years, this proposed budget would set aside adequate reserves. The \$3.8 billion in reserves includes:

Working Capital Fund - \$391.0 million;  
Budget Stabilization Fund - \$1.2 billion;  
Lawton Chiles Endowment Trust Fund - \$1.9 billion  
State trust fund excess balances - \$300.0 million.

Florida TaxWatch's examination of the Governor's budget finds much to support; the continued commitment to tax modernization and relief, an attempt to "pay as you go", strong budget reserves and at least an acknowledgement of the danger of spending non-recurring funds on recurring programs. Of course, this budget will change as it goes through the legislative process. We hope legislators will show restraint with budget "turkeys" and the spending of non-recurring money. Even with his cautioning against it, the Governor's budget spends \$580.5 million of non-recurring revenue on recurring expenses. With almost \$3 billion in non-recurring revenue available for the 2005-06 budget, the temptation will be great for legislature to spend much more.

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## *About Florida TaxWatch*

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Florida TaxWatch is a private, non-profit, non-partisan research institute that over its 25 year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Its mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies and programs and to increase the productivity and accountability of Florida Government.

Florida TaxWatch's empirically sound research recommends productivity enhancements and explains the statewide impact of economic and tax and spend policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit taxpayers.

This diligence has yielded impressive results: since 1979, policy makers and government employees have implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than \$6.2 billion--approximately \$1,067 in added value for every Florida family.

*The organization enjoys a credible reputation and statewide exposure with the television, radio and newspaper media, which regularly report on its research and recommendations.*

Florida TaxWatch has a historical understanding of state government, public policy issues, and the battles fought in the past necessary to structure effective solutions for today and the future. It's the only statewide organization devoted entirely to Florida taxing and spending issues.

Supported by voluntary, tax-deductible memberships and grants, Florida TaxWatch is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, large corporations, philanthropic foundations, professionals, associations, labor organizations, retirees--simply stated, the taxpayers of Florida. The officers, Board of Trustees and members of Florida TaxWatch are respected leaders and citizens from across Florida, committed to improving the health and prosperity of Florida.

With your help, Florida TaxWatch will continue our diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and that government agencies are more responsive and productive in the use of your hard-earned tax dollars.

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◆ Integrity ◆ Productivity ◆ Accountability ◆ Independence ◆ Quality Research



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