

Budget Watch



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Analysis of the Governor's 2001-2002 Budget Recommendations

Governor Bush's budget recommendations for Fiscal Year 2001-2002 attempt to establish a "new starting point for clarity and truth in the state budget." While Florida TaxWatch applauds this first effort at "truth in budgeting," it makes it difficult to examine the "true" proposed spending increase over last year. For example, the total proposed budget is \$43.2 billion or \$8.4 billion less than the previous year. However, this 16.3 percent drop does not reflect a decrease in state government spending. Rather, it represents an effort on the Governor's part to develop what appears to be "a more accurate system of budget accounting" which eliminates excess or misleading budget authority to reveal a truer spending number.

To do this, the Governor's Recommended Budget removes a number of spending items that the Governor does not believe represents net state spending. These items, which total \$8.8 billion, are:

- 1) \$1.9 billion in "pass-through" funding to local governments** -- e.g., federal funds for public schools, disaster assistance and housing programs
- 2) \$1.6 billion in double-budgeted items** (e.g., funds received by one agency and transferred to another agency's budget) -- grants, building maintenance, technology services, and benefits administration (Florida TaxWatch concurs with Item No. 2 above and has pointed this out in the past.)
- 3) \$5.3 billion in items that are not state expenditures** -- city/county tax dollars collected by the state \$ on their behalf and benefit payments to state retirees from their pension fund which is managed by the state.

The Governor's Recommended Budget separately accounts for these pass-throughs and fund transfers and subtracts them from his total budget recommendation to show net state spending. Expenditures for city/county tax dollars and pension payments to state retirees have been taken out of the budgeting accounting system altogether, although these services and functions will continue unchanged.

After this "rebasings" of the budget, the question can be asked: "What is the state spending increase proposed in the Governor's Recommended Budget for 2001-2002?" To make the proverbial "apples to apples comparison" one would have to remove items (1), (2) and (3) above from the current year budget.

Given the complexities of the computerized budgeting system, however, the Governor's office could not adjust the current year budget for all of the rebased items in the current year budget. Consequently, the best that can be done is an approximation of the "spending" increase, by assuming that items in (1) and (2) have not changed significantly from last year. Comparing this partially "rebased" current year budget with the Governor's rebased Recommended Budget indicates a net state spending increase of approximately \$1.1 billion, (the same increase in dollars as last year), an increase of 2.6 %.

Although the same size in dollars as last year's increase, this year's proposed budget increase is achieved quite differently. Last year the Governor and Legislature were presented with an unprecedented \$2.9 billion in General Revenue available for new spending: \$2.2 billion for program enhancements and the Everglades and transportation initiatives, \$417.8 million for tax relief, and \$245 million added to reserves.

In contrast, estimated General Revenues available for new spending in the 2001-2002 budget are drastically lower, only \$654 million versus \$2.9 billion last year. To create "general revenue available" sufficient to fund his spending priorities, the Governor has shifted funds away from lower priority purposes toward higher priority ones. Over \$1.9 billion in redirected General Revenue budget reallocations combined with the \$654 million in additional General Fund revenues provides the basis for the \$1.5 billion in new and redirected spending on the Governor's priority programs and the \$1 billion used to fund higher budget reserves, the Governor's tax cut proposal and funding the current year Medicaid deficit.

Most of the \$1.9 billion of redirected General Revenue budget reallocations--\$1.0 billion--was elimination of spending items that were not previously planned to be spent in the future rather than actual budget cuts or savings. The other \$900 million consisted of reductions in bureaucracy (\$62m), program efficiencies (\$71m) and cuts (\$53m), elimination of special projects (\$60m), Medicaid cost containment (\$290m), and replacing General Revenue funds for certain programs with other state and federal funding sources (\$120m).

However, it is anticipated that at the General Revenue Estimating Conference meeting on March 9, 2001, the projected funds available for the 2001-2002 state budget will be reduced by \$200 million. This anticipated reduction, together with the cost of an additional 35,340 students in the public school system beyond what the Governor anticipated in his Recommended Budget (total student enrollment growth of 65,000), will add almost \$400 million that the Governor and Legislature must still address.

Budget Summary

Below is a fiscal summary of the Governor's budget recommendations (see accompanying chart at the end of the report for a detailed comparison between current year estimated expenditures and the Governor's budget recommendations by state agency):

- The **General Revenue** recommendation totals \$20.091 billion, an **increase of \$17.7 million** (0.1%) over the estimated 2000-2001 spending level of \$ 20.073 billion.
- The **Trust Fund** recommendation totals \$ 26.598 billion, an **increase of \$1.462 billion** (5.8%) over the estimated 1999-2000 spending level of \$25.136 billion.
- The **Total** recommendation (all funds) is \$46.489 billion, an **increase of \$1.479 billion** (3.3%) over the estimated 2000-2001 spending level of \$45.209 billion.
- Recommended state government staffing level totals 120,827 full-time equivalent (FTE) **positions** for 2001-2002, a **net decrease** of 4,233 positions (-3.4%).

Budget by Program Area (dollars in billions)

Program/Policy Area	Current Year Budget 2000-2001		Governor's Recommendations 2001-2002		Over/Under	
	Dollars	Positions	Dollars	Positions	Dollars	Positions
Education	\$13.385	452	\$13.339	425	(\$0.046)	(27)
Economic Opportunities	\$ 6.092	9,819	\$ 7.197	8,325	\$0.001	(1,494)
Public Protection	\$ 4.491	54,506	\$ 4.461	54,602	(\$0.029)	96
Health and Human Services	\$13.992	29,506	\$14.548	28,218	\$0.556	(1,288)
Natural Resources and Environment	\$ 2.057	4,904	\$ 1.823	4,718	(\$0.234)	(186)
State Courts	\$ 0.268	2,399	\$ 0.252	2,395	(\$0.016)	(4)
Governmental Operations & Support	\$ 3.165	23,422	\$ 3.417	22,092	\$0.252	(1,330)
Other Fixed Capital Outlay	\$ 1.760	0	\$ 1.652	0	(\$0.108)	0
Total All Program Areas	\$45.209	125,007	\$46.688	120,774	\$1.480	(4,233)

Education and Health and Human Services Programs Lead the Way, Accounting for 60% of Total State Spending

Education

The Governor's 2002 budget recommendations for the public schools were based on an estimated school enrollment of 2,400,732 students (unweighted full-time equivalent (uwfte)). The total cost for these students is \$12.3 billion (\$7.4 billion state and \$4.9 billion local) and represents average funding of \$5,136.88 per student (uwfte) for the 2001-2002 academic year. However, student enrollment projections have been increased by 35,340 students since the Governor released his budget recommendations (Consensus Estimating Conference, February 6, 2001). Fully funding these additional students at the Governor's recommended funding level of \$5,136.88 per student will cost an additional \$181.5 million--an issue to be addressed by the Governor and Legislature.

Human Services Spending

The Governor has proposed several new health and human service initiatives in what he terms critical service areas. This includes the provision of subsidized health insurance for children through KidCare, the establishment of an effective safety net for abused and neglected children, expansion of opportunities for the elderly to age in place through home and community-based, long-term care services, and the provision of needed services to the state's developmentally disabled residents.

After several years of stable Medicaid costs, Floridians will see significant increases in Medicaid expenditures for both this year and the next budget year. In fact, an additional \$966 million of state funds are required to fund the deficit in last year's budget and to cover the cost of Medicaid caseload and price increases for next year. The unexpected growth in Medicaid caseloads comes from two sources: (1) intensive outreach efforts resulting in over 84% of eligible children being enrolled in Medicaid and (2) the period of extended eligibility granted to persons who leave welfare to obtain work. In addition to caseload growth, the explosive growth in pharmacy costs represents the greatest factor in rising Medicaid costs followed by hospitals, nursing homes, and physician costs. The Governor's Recommended Budget proposes competitively bidding pharmacy services and negotiating favorable rebates from manufacturers, as well as competitively bidding other Medicaid services to generate budget savings of \$290 million.

Estimating budget savings from this type of cost containment activities is very risky business. Sufficient funds should be held in reserve in the event that the cost containment initiative yields results less than expected as was the case this year.

The Governor's Tax Relief Recommendations

The Governor's budget again provides significant tax relief for Floridians and continues his efforts toward his goal of \$6.1 billion in tax cuts by FY 2002-03. His plan proposes \$313 million in tax cuts for FY 2001-02, comprised mostly by further reductions to the intangibles tax and another popular sales tax holiday for clothing.

These cuts come on the heels of \$1.5 billion in tax cuts during the last two legislative sessions. The 1999 Legislature reduced taxes by over \$1.1 billion, the largest cut in history, and the 2000 Legislature added another \$482 million in tax relief. The cumulative impact of these already enacted tax reductions is

expected to be \$5.5 billion through FY 2002-03. The Governor's new proposal would bring the four-year total to his goal of \$6.1 billion.

The tax relief of the past two years includes cutting the intangibles tax in half, reductions in school property taxes, the alcoholic beverage surcharge, unemployment compensation taxes, health care assessments, parimutuel taxes and vehicle emissions, and two sales tax holidays for clothing. Also enacted were long-overdue Florida TaxWatch recommended fairness issues including shortening the statute of limitations for audits, paying taxpayers interest on late refunds and reducing the interest paid on overdue assessments. Numerous smaller reductions were also passed aimed at economic competitiveness and taxpayer fairness.

The components of the Governor's 2001-02 plan are:

- *Intangibles Taxes.* As recommended by Florida TaxWatch's Intangibles Tax Task Force, since 1998, the rate has been cut from 2.0 mills to 1.0 mills, the minimum payment before a taxpayer must file has been increased (resulting in 275,000 taxpayers (179,000 individuals and 96,000 businesses) no longer having to file), and the tax on accounts receivables has been eliminated. This year, the Governor proposes reducing the rate 25 percent to .75 mills and increasing the standard exemption. This proposal will reduce the intangibles tax by an annual amount of \$277 million. This has the effect of cutting the tax in half.
- *Sales Tax Holiday.* A nine-day "holiday" from sales tax on clothing items costing less than \$100 is again proposed for the third year-in-a-row. This would reduce the tax burden by an estimated \$43 million. Having the holiday in August allows families to save on back-to-school clothes. The retail industry has embraced this idea because it increases economic activity in a usually slow period.
- *Hospital Assessments.* The Governor proposes reducing the state assessment on net revenues from hospital outpatient services, ambulatory surgical centers, clinical laboratories, and diagnostic imaging centers from 1.0% to 0.5% (This was a recommendation of the Public Medical Assistance Task Force enacted by the Legislature in 1999 and to which the Governor appointed Florida TaxWatch Trustee Jerry E. Aron of Gunster, Yoakley, Valdes-Fauli & Steward.) This follows a reduction from 1.5% to 1% enacted last year and will benefit almost 3,000 hospitals and health care facilities. The Governor states that this is necessary because of widespread financial pressures currently afflicting Florida's hospitals (one-third operating in the red).
- *Fee Reductions.* The Governor proposes reinstating a refund of the \$15 filing fee when a taxpayer successfully challenges a property tax valuation through the local Value Adjustment Board. He also proposes eliminating a duplicative condominium regulation program which would save each condominium unit \$.40 per year resulting in \$40,000 in total savings to 1.1 million condominium owners.

Florida TaxWatch commends Governor Bush for his commitment to reducing burdensome and counterproductive taxes. However, his recommendations do not include the final phase-out of the alcoholic beverage surcharge and his plan for the intangibles tax differs slightly from Florida TaxWatch's long-standing recommendation to phase out the tax via rate reduction. Florida TaxWatch recommends that the rate be reduced to .5 mills this year, continuing the originally scheduled and committed four-year phase-out. Governor Bush states he is still committed to the eliminating the tax next year.

There's a Long Way to Go in the State Budget Process

It must be remembered that the Governor's recommended budget is only the starting point for the state's budget deliberations during the legislative session. Both the House and the Senate will craft their version of the state spending plan using the Governor's as a base. In the end, a conference committee will meet to hammer out the differences. Along the way, many pressures -- fiscal, political and parochial -- will influence how the Legislature decides how to spend your tax dollars. Florida TaxWatch will monitor this process and report to the taxpayer at key stages along the way. In the next BudgetWatch report in this series, to be released in April, TaxWatch compares the House and Senate budgets as passed to the Governor's recommended budget discussed in this report.

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