

## ANALYZING THE GOVERNOR'S FY2016-17 BUDGET AND TAX RECOMMENDATIONS

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**G**overnor Rick Scott's budget recommendations for FY2016-17 total \$79.252 billion—an increase of 1.1 percent (\$855.1 million) over current year spending. General Revenue (GR) spending of \$29.260 billion would be an increase of 1.4 percent over the current year. The budget proposes to fund 112,823 state employee positions, 864 fewer than currently exist. The proposed budget is also \$300 million less than was requested by state agencies this fall,<sup>1</sup> and funds 2,044 fewer positions than requested.

The Governor claims his budget contains \$448.8 million (\$135.6 million from GR) in savings from reduced positions and agency efficiencies.

The Governor's proposed budget will serve as the framework for the state's new spending plan as the Legislature formulates the state General Appropriations Act this session.

### PROPOSED TAX REDUCTIONS

The Governor is recommending approximately \$1 billion in tax relief. He is recommending one-time relief (tax holidays and a one-year exemption for college textbooks) of \$117.0 million. He is also proposing recurring tax cuts of \$946.1 million. Because the recurring cuts are not implemented for the whole of FY2016-17, the first year state and local tax savings would be \$621.5 million. The first year impact to the state budget is \$586.5 million.

<sup>1</sup> Excluding the Department of Transportation. Due to its unique cash flow budgeting system, its request is often lower than it normally would be.

### GOVERNOR'S PROPOSED BUDGET SNAPSHOT

*Total Funding* - \$79.252 billion—\$855.1 million (1.1 percent) more than current year spending.

*State Employees* - 112,823 state employee positions, 864 fewer than currently exist. Most of these deleted positions are currently vacant. There is no across the board pay increase for state employees but the Governor is recommending a three-tiered bonus system through which an employee could receive up to \$1,500.

*Tax Cuts* - \$621.5 million in state and local tax savings in the first year, \$946.1 million annually thereafter.

*Tuition* - no tuition increase.

*Reserves* - \$5.3 billion, including \$1.8 billion in General Revenue (cash) reserves.

*Trust Fund Sweeps* - \$237.5 million, including \$172.0 million from the Local Government Housing Trust Fund. The State Transportation Trust Fund is not swept.

*Bonding* - The Governor proposes to use new bonds for transportation only (\$392 million).

## FY 2016-17 Governor's Budget Recommendations

Compared to Current Year (\$ millions)

Department/Agency	General Revenue	Trust Funds	Total	Current Year Total	+ / (-) Current Year	Positions	+ / (-) Current Year
Administered Funds (Statewide)	\$65.81	\$60.01	\$125.82	\$78.42	\$47.39	-	-
Agriculture & Consumer Services	\$98.26	\$1,473.44	\$1,571.69	\$1,529.39	\$42.30	3,586	(28)
Business & Professional Regulation	\$2.05	\$150.17	\$152.22	\$151.13	\$1.09	1,604	(16)
Children & Families	\$1,680.33	\$1,363.46	\$3,043.79	\$3,009.34	\$34.45	11,830	(1)
Citrus	\$-	\$41.50	\$41.50	\$41.83	(\$0.33)	50	(5)
Commission on Offender Review	\$9.83	\$0.06	\$9.89	\$10.01	(\$0.12)	132	-
Corrections	\$2,358.11	\$70.63	\$2,428.74	\$2,363.22	\$65.51	24,364	472
Economic Opportunity	\$24.56	\$1,233.40	\$1,257.97	\$1,059.74	\$198.23	1,538	(81)
Education	\$15,123.87	\$8,073.17	\$23,197.04	\$22,924.59	\$272.45	2,326	(88)
Elder Affairs	\$129.69	\$166.82	\$296.51	\$295.81	\$0.71	440	6
Environmental Protection	\$37.78	\$1,484.36	\$1,522.14	\$1,441.98	\$80.15	2,823	(152)
Financial Services	\$23.24	\$301.34	\$324.59	\$326.88	(\$2.29)	2,601	(9)
Fish & Wildlife Conservation	\$28.31	\$342.29	\$370.60	\$358.99	\$11.61	2,119	-
Governor's Office	\$45.45	\$281.00	\$326.44	\$368.64	(\$42.20)	425	(8)
Health	\$470.16	\$2,315.38	\$2,785.54	\$2,821.75	(\$36.21)	13,641	(718)
Health Care Administration	\$6,418.20	\$19,313.36	\$25,731.56	\$25,512.03	\$219.53	1,545	(18)
Highway Safety & Motor Vehicles	\$-	\$464.31	\$464.31	\$453.93	\$10.38	4,414	-
Justice Administration	\$719.76	\$139.59	\$859.35	\$859.97	(\$0.62)	10,402	19
Juvenile Justice	\$394.27	\$151.88	\$546.15	\$540.31	\$5.84	3,266	-
Law Enforcement	\$110.85	\$175.42	\$286.27	\$270.02	\$16.25	1,813	-
Legal Affairs	\$50.32	\$252.25	\$302.57	\$204.34	\$98.23	1,368	6
Legislature	\$201.15	\$2.48	\$203.64	\$203.95	(\$0.31)	0	-
Lottery	\$-	\$168.83	\$168.83	\$169.62	(\$0.78)	420	-
Management Services (incl. AST)	\$38.90	\$637.02	\$675.93	\$702.90	(\$26.97)	1,291	(33)
Military Affairs	\$32.27	\$44.09	\$76.36	\$96.35	(\$19.98)	453	(5)
Persons with Disabilities	\$507.21	\$715.93	\$1,223.14	\$1,208.90	\$14.24	2,750	(116)
Public Service Commission	\$0.21	\$24.33	\$24.54	\$25.14	(\$0.60)	268	(12)
Revenue	\$210.23	\$363.66	\$573.89	\$574.22	(\$0.33)	5,132	(1)
State	\$54.99	\$34.27	\$89.26	\$132.06	(\$42.80)	405	(1)
State Courts	\$414.48	\$98.67	\$513.15	\$519.11	(\$5.96)	4,338	-
Transportation	\$-	\$9,949.31	\$9,949.31	\$10,034.19	(\$84.88)	6,379	(75)
Veterans Affairs	\$9.59	\$99.95	\$109.54	\$108.47	\$1.07	1,106	-
<b>Totals</b>	<b>\$29,259.89</b>	<b>\$49,992.40</b>	<b>\$79,252.29</b>	<b>\$78,397.22</b>	<b>\$855.06</b>	<b>112,823</b>	<b>(864)</b>

*Sales Tax Exemption for Manufacturing Machinery and Equipment* – The Governor’s tax proposal includes a long-standing Florida TaxWatch recommendation<sup>2</sup>—making the sales tax exemption for manufacturing machinery and equipment permanent. The 2013 Legislature passed a three year exemption, set to expire April 30, 2017. This will not cost the state any money this year, but recurring savings are expected to be \$73.1 million annually. Of that amount, local governments would lose \$13.4 million.

*Sales Tax on Commercial Rents* – Florida TaxWatch also supports reducing/eliminating the sales tax paid on commercial rents. This tax is unique to Florida, which creates a disincentive for businesses to operate in Florida. Under the Governor’s proposal, for calendar year 2017, the state sales tax rate on rents would be reduced from 6 percent to 5 percent. After that, the rate would be 5.64 percent. This would save business renters \$119.6 million in FY2016-17, and \$103.3 million on a recurring basis.

*Sales Tax Exemption for College Textbooks* – The Governor also wants to extend the exemption that was passed last year for another year. College textbooks would be exempt from both state and local sales taxes and the exemption would apply to textbooks for both public and private institutions. College students would save an estimated \$44.2 million next year. State revenue would be reduced by \$36.2 million, local government revenue would drop by \$8.0 million.

*Corporate Income Tax* – After several years of recommending increasing the standard exemption, the Governor is taking a different tact to reducing the corporate income tax. He proposes to fully exempt corporations engaged in retailing or manufacturing from the tax. This would save \$769.7 million annually (all state revenue), nearly one-third of all corporate income tax revenue. Since it will apply to tax years beginning on or after January 1, 2016, the FY2016-17 impact would be only \$384.9 million.

*Sales Tax Holidays* – The Governor is recommending another of the popular “back to school” sales tax holidays which would run from

<sup>2</sup> Extending the Manufacturing Machinery & Equipment Sales Tax Exemption. Florida TaxWatch. November 2015.

FY2016-17 Governor’s Recommended Tax Cuts (\$ in millions)						
Department/Agency	General Revenue		Local		Total	
	First Year	Recurring	First Year	Recurring	First Year	Recurring
<b>Sales Tax</b>						
Commercial Rent Rate Reduction	\$105.90	\$91.50	\$13.70	\$11.80	\$119.60	\$103.30
Exemption for Manufacturing M&E*	\$-	\$59.70	\$-	\$13.40	\$-	\$73.10
10 Day Back-to-School Sales Tax Holiday	\$56.10	\$-	\$12.60	\$-	\$68.70	\$-
Exemption for College Text Books**	\$36.20	\$-	\$8.00	\$-	\$44.20	\$-
Disaster Preparedness Tax Holiday	\$3.40	\$-	\$0.70	\$-	\$4.10	\$-
<b>Corporate Income Tax</b>						
Exemption of Manufacturers & Retailers	\$384.90	\$769.70	\$-	\$-	\$384.90	\$769.70
<b>Total Tax Relief</b>	<b>\$586.5</b>	<b>\$920.9</b>	<b>\$35.0</b>	<b>\$25.2</b>	<b>\$621.5</b>	<b>\$946.1</b>

\* Make the current temporary exemption for manufacturing machinery and equipment permanent.

\*\* One-year extension

Note: These cuts would have an insignificant impact on Trust Fund revenues.

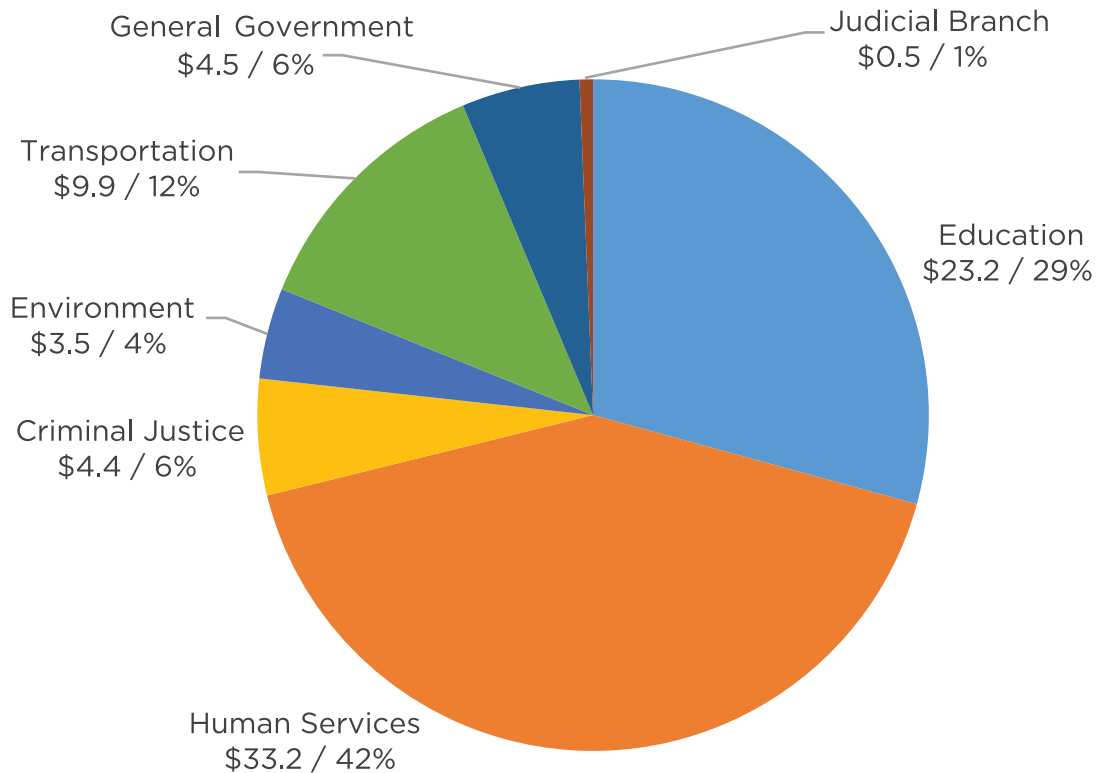
**General Revenue Fund Outlook**  
Impact of Governor's Recommendations (\$ millions)

Funds Available 2016-17	Recurring	Non-recurring	Total
Current Reserves	\$-	\$1,803.5	\$1,803.5
Estimated revenues	\$29,880.7	(\$124.5)	\$29,756.2
Reversions and other adjustments	(\$0.1)	\$58.2	\$58.1
Budget Stabilization Fund	\$-	(\$30.4)	(\$30.4)
Total GR Available for 2015-15	\$29,880.6	\$1,706.8	\$31,587.4
<b>Governor's Recommendations</b>			
Tax Relief	(\$920.9)	\$334.4	(\$586.5)
Trust Fund Sweeps	\$-	\$237.5	\$237.5
Appropriations*	(\$28,878.6)	(\$381.8)	(\$29,260.4)
Florida Enterprise Fund**		(\$180.0)	(\$180.0)
<b>2016-17 GR Reserves</b>	<b>\$81.1</b>	<b>\$1,716.9</b>	<b>\$1,798.0</b>

\* includes \$500,000 to implement the sales tax holidays in proposed legislation

\*\* the Governor proposes transferring \$180 million from GR and \$70 million from the State Economic Enhancement and Development TF to create the new Enterprise Fund.

**Governor's Budget - Appropriations by Program Area**  
\$ billions



August 5-14, 2016. The 10-day sales tax holiday would exempt clothing priced at \$100 or less, school supplies at \$15 or less, and the first \$750 of the price of a computer. This would save consumers \$68.7 million, \$12.6 million of which would be local revenue. He is also recommending a 9-day holiday for disaster preparedness items, such as self-powered lights and radios, tarps, generators, first-aid kits and batteries. This would save consumers an additional \$4.1 million, \$0.7 million of which would be local revenue.

## EDUCATION

*K-12 Education* – Recommended total funding for the Florida Education Finance Program (FEFP) is \$20.2 billion (\$11.0 billion in state funding), \$507.3 million (2.6 percent) more than the current year. The nearly 26,000 new students expected for next year will cost \$145.3 million. Per-student spending of \$7,221 would be \$116 per student more (1.6 percent) than the current year and is \$95 more than the previous per-student high in FY2007-08. However, as has been the case in recent years, local taxpayers will pay for most of this funding increase—Required Local Effort (RLE) and discretionary property taxes will rise by \$427.3 million (4.9 percent). The state contribution will increase by only \$80 million (0.7 percent). Although the Governor is proposing to keep the current millage rate, increasing property values will mean higher school property tax bills. Under the state Truth in Millage Law, this should be considered a tax increase (less the taxes from new construction). While the Legislature sets the amount of RLE in the budget, it is not considered a state appropriation and does not add the budget's bottom line.

This record spending for the FEFP includes a \$20 million increase in the digital classroom allocation (to \$80 million) and \$86.8 million for improving

the lowest performing schools. This money will provide students in those schools with an additional hour of intensive reading instruction.

*Higher Education* - Florida Colleges are funded at \$1.17 billion, an \$18.9 million increase over the current year. This includes \$60 million for performance funding, \$5 million to create a \$10,000 STEM Bachelor Degree program and \$10 million for students earning industry certifications in specified high-demand areas. Universities would receive \$4.6 billion, an \$89.4 million increase. This includes \$500 million in performance funding, \$50 million of which is new money. Universities would provide \$250 million by redirecting funding from their base budgets. The Governor would provide \$16.9 million to expand Bright Futures Scholarships to cover credit hours taken during the summer term. No tuition increase is recommended, but \$27.7 million in new budget authority is provided for tuition from new students.

*Early Learning* – The Office of Early Learning, which runs the state's prekindergarten programs would receive \$1.073 billion, a \$51.7 million increase. This will provide a \$50 per student increase (\$43 per student in the summer program). The Governor's budget also includes an increase of \$20.3 million to serve 3,500 additional children in Florida's school readiness program. The Governor also wants to double (to \$3.9 million) funding for the Help Me Grow skill building initiative to connect children and families with information, resources, and developmental services to enhance health, behavior, and learning in the development of young children.

*Education Fixed Capital Outlay* – The Governor recommends \$1.8 billion for education facility projects, most of which (\$1.3 billion) goes to pay debt service on outstanding bonds. The remainder includes nearly \$260 million for maintenance,

repair and renovation of public schools (\$75 million), charter schools (\$75 million), universities (\$50 million) and colleges (\$50 million). Eight small rural school districts would receive \$75.4 million for construction projects. Another \$90 million is provided for new college (\$40 million) and university (\$50 million) building projects, for which the Governor would require a 1-to-1 match from the institution or private sources. The Board of Governors and the State College System requested \$134.7 million (no match requirement) for these projects.

## HEALTH & HUMAN SERVICES

*Medicaid* – The Governor recommends \$25.5 billion for the Agency for Health Care Administration, which runs the state’s Medicaid program. This is \$219.5 million more than the current year, but \$76.5 million less than was requested by the agency. Because he says hospitals made record profits of \$4.3 billion last year, his budget would eliminate the automatic 2 percent increase in hospital reimbursement rates, saving \$82.6 million. He also proposes to reduce “arbitrary add-on payments to hospital rates,” reducing hospital payments by another \$202.3 million. The Low Income Pool (LIP), which reimburses providers for indigent care, is funded at \$608 million. The Governor does not recommend using state dollars to offset the loss of \$400 million in federal funds for LIP.

*Persons with Disabilities* – \$15.0 million in additional funding is provided to enroll all individuals with critical needs from the waiting list onto the Developmental Disabilities Waiver Program, which provides home and community based services to assist people with developmental disabilities in living, learning, and working in their communities. This will add 700 persons to the

program. \$1.0 million is recommended for supported employment and supported internship services for the disabled.

*Children and Families* – The Governor recommends \$19 million in additional funding to better coordinate and enhance mental health and substance abuse services. The Governor is also recommending an additional \$22.9 million to hire 272 case managers at community based care lead agencies to increase the availability of safety services for at risk children. Both of these issues have been the subject of recent Florida TaxWatch reports.<sup>3</sup> In addition, \$3.1 million would be provided for standardized training of all child welfare workers and \$6.7 million is provided to support adoptions of children with special needs.

*Elder Affairs* – The Governor is recommending \$1.7 million in new funding to enroll 150 additional individuals into the Alzheimer’s Disease Initiative program, and another \$2.0 million to enroll 330 additional individuals into the Community Care for the Elderly Program.

*Health* – The Department of Health’s total budget would be reduced by \$36.2 million (1.3 percent) and it would lose 718 positions (mostly vacant) due to agency streamlining. However, the Statewide Medicaid Residency program would receive an increase of \$26.6 million.

*Veterans Affairs* – The Governor proposes \$10.8 million for the new state veteran nursing homes in St. Lucie County and to build an eighth home at a location yet to be determined.

<sup>3</sup> Florida TaxWatch. *Analysis of Florida’s Behavioral Health Managing Entities Model*. March 2015. and *Challenges Facing Florida’s Community-Based Child Welfare System*. Nov. 2015.

## CRIMINAL JUSTICE

The Governor's total Public Safety budget recommendation is \$4.9 billion, an increase of \$179 million. The Department of Corrections' budget would increase by \$65.5 million (2.8 percent). This includes \$36 million to make critical repairs to correctional facilities and \$28 million to hire 472 additional correctional officers. The Governor also recommends a \$14 million increase to improve inmate mental health services and \$2.5 million to close the department's current operating deficit.

Other funding issues:

- Juvenile Justice – Prevention program funding would be increased by \$1.9 million, including \$1.3 million for 75 additional PACE slots for at-risk girls. Also recommended is \$8.9 million for facility repairs and \$1.9 million to improve youth-to-staff ratios at DJJ's non-secure residential facilities.
- \$8.9 million to reduce turnaround times and the Department of Law Enforcement's crime labs.
- The State Court System had requested a total budget increase of \$41.5 million. However, the Governor is recommending a \$6.0 million decrease, not funding requested technology improvement nor the 24 new judgeships currently certified by the Supreme Court.
- The Governor also did not fund the significant increases recommended by State Attorneys and Public Defenders, instead recommending small budget decreases.
- Guardian ad Litem – A \$1.1 million increase with the aim of providing representation for every child in the dependency system. This funding will be used to hire 19 new positions to serve 2,000 youths in need.
- \$11.8 million would be used to re-open two work camps and four dorms.

## ENVIRONMENT

Environmental highlights include:

- \$151 million for Everglades restoration. The Governor is also proposing legislation that would create a dedicated source of revenue for the Everglades that would provide \$5 billion over 20 years;
- The plan would also provide a dedicated revenue source for springs protection, providing \$50 million next year and \$1.6 billion over 20 years;
- Amendment 1 – As required by law, \$905 million of documentary stamp taxes will be deposited into the Land Acquisition Trust Fund. The Governor proposes using this for both current and new environmental programs. This includes \$63.0 million for Florida Forever land purchases and \$120.0 million for land management;
- \$25 million for beach restoration, a \$7.1 million decrease;
- \$50 million for water supply projects,
- \$35 million for state park improvements; and
- \$16.2 million to fight citrus disease.

The Governor did not fund pay increases for state firefighters, as requested by the Agriculture Commission. He points to his proposed bonus plan for all state employees. The Governor vetoed the increases last year.

## ECONOMIC DEVELOPMENT

Along with tax cuts, perhaps the Governor's biggest priority is investing \$250 million in one-time funding to create the new Florida Enterprise Fund to provide incentives for businesses to locate in Florida. The Governor says this will allow Florida to compete against states such as Texas, diversify

Florida's economy, and support small business. He is also proposing reforms to the process, including:

- Dedicating economic incentive funds so they do not revert;
- Eliminating the current escrow account and creating a new trust fund;
- Eliminating special waivers and requiring a 10 percent annualized return on investment;
- Streamlining the approval process for incentives deals to be more inclusive of the Legislature; and
- Ensuring no funds are paid until jobs are created.

In addition, \$38 million is recommended for economic additional development incentives such as the Qualified Targeted Industry Tax Refunds, Defense Contractor Tax Refunds and Brownsfield Development Tax Refunds.

Quick Response Training (Florida Flex) would receive \$15.0 million, a \$3.0 million increase. These funds would be used to provide training for workers moving into new Florida jobs.

VISIT Florida would receive \$80.0 million, a \$6.0 million increase.

## TRANSPORTATION

The Governor's budget fully funds the Department of Transportation's work program at \$9.1 billion, including:

- \$3.3 billion to expand capacity, including 169 new lane miles;
- \$963.4 million for maintenance and operation;
- \$546.8 million for resurfacing 1,916 lane miles;
- \$237.6 million for aviation improvements;
- \$574 million for transit program improvements;

- \$731.9 million for repair of 48 bridges and replacement of 21 bridges;
- \$159 million for safety initiatives;
- \$153.9 million in seaport infrastructure improvements; and
- \$46.6 million for bike and pedestrian trails.

## CONCLUSION

The Governor's proposed budget is simply the starting point for the legislative budget process. The Legislature will have its own initiatives and some things in the Governor's budget will likely be replaced with those and, of course, there will certainly be local member projects included in the final budget.

Some legislative leaders have suggested that the Governor's tax cut package might be too ambitious. They have mentioned \$250 million as a potential tax cut level. There will also be another revenue estimating conference<sup>4</sup> before the Legislature passes the new state budget, and available revenues could go up or down.

The Governor recently suggested that the \$635 million surplus estimated by the Legislature was too low and it should really be \$1.3 billion. The difference is not about estimates or fuzzy math, the Governor and the Legislature are using the same estimates. The difference between the two surpluses (\$635 million vs. \$1.3 billion) boils down to a disagreement over what constitutes a continuation budget. The Long Range Financial Outlook estimates that there is \$1.3 billion in GR left after funding "Critical Needs" — everything it must fund without changing law or policy.

<sup>4</sup> See the Long Range Financial Outlook, Fiscal Year 2016-17 through 2018-19. Available at <http://edr.state.fl.us/Content/long-range-financial-outlook/index.cfm>

There is \$635 million left after also funding “High Priority Needs” — other historically funded items (usually based on a 3 year average). For example, the cost of funding increased K-12 enrollment (at the same per-student level) is a Critical Need. Increasing per-student funding is a High Priority Need.

When the Governor says the surplus is \$1.3 billion, he is not considering many things the Legislature has historically funded as being part of the budget base. In addition to increasing per student funding, this includes things such as local water projects, beach renourishment, reducing human services waitlists, economic development and workforce projects, repair of state buildings, libraries and cultural and historic preservation grants. The Governor does provide funding for some of these issues.

The \$635 million surplus also accounts for tax cuts (\$262 million) and trust fund sweeps (\$237 million). It should be noted that both surplus estimates assume GR cash reserves of only \$1 billion. The Legislature have left larger reserves in recent years (the Governor is recommending \$1.8 billion in his budget).<sup>5</sup>

There is an argument to be made for both perspectives, but you can count on the Legislature funding many, if not all, High Priority Needs. It should also be noted that if all these needs are funded, leaving \$635 million, the Long Range Financial Outlook warns that only \$74 million can be spent on recurring expenses without creating a budget deficit in the third year. This is why the Governor’s full tax package will face an uphill battle.

Another potential sticking point is public school funding. While the Legislature certainly supports increasing per student funding, there is growing

sentiment that the significant local property tax increase used to fund it may not be supported. Reducing that property tax increase would require more state funds to reach the Governor’s recommended funding level.

In addition, in light of the significant proposed trust fund sweeps, Florida TaxWatch reiterates its recommendation that each sweep be considered in a separate bill and voted upon by the Legislature.

Florida TaxWatch supports many provisions in the Governor’s proposal. Cutting taxes, while increasing spending on things that are important to Floridians, such as education and the environment, and maintaining healthy reserves should be commended. The Governor also claims his budget contains savings of \$448.8 million and eliminates 864 employee positions (most of which are vacant). The proposed budget includes many provisions supported by Florida TaxWatch research and the TaxWatch Center for Government Efficiency.<sup>6</sup>

The Governor has also recommended an employee bonus plan that lets employees share in the success of the agency, both in meeting its performance measures and achieving cost savings. An employee can earn: \$500 if the agency meets its performance measures; another \$500 if the employee meets its SMART expectation (satisfactory or better); and another \$500 funded with documented agency budget savings.

Florida TaxWatch will continue to work this session to help ensure that cost savings and improvements in the way government does business continue to be priority, that the tax package creates the most “bang for the buck” possible, and that added appropriation items get the scrutiny and debate they deserve.

<sup>5</sup> For more information, see Florida TaxWatch *Budget Watch - Projected Surplus Not As Large As It Seems*. Sept. 2015

<sup>6</sup> More information on the work of the Center for Government Efficiency is available at [www.floridatxwatch.org/researchareas/cge.aspx](http://www.floridatxwatch.org/researchareas/cge.aspx)

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