

BUDGET WATCH



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The Governor's Budget Recommendations for FY 2010-11 **Governor Crist Releases "Optimistic"** **\$69.2 Billion Spending Plan**

Budget relies on uncertain revenue and using billions of dollars of non-recurring funds for recurring expenses

Governor Charlie Crist today released his budget recommendations for FY 2010-11, calling for \$69.2 billion in spending – a \$2.7 billion (4.0%) increase over the current year budget. The size of the budget may be surprising to some given the talk of a multi-billion budget shortfall looming as legislators prepare to begin the 2010 General Session.

The Governor is able to recommend the increased spending, as well as \$100 million in tax cuts, by relying on federal assistance, money from the Seminole Gambling Compact, raiding the Lawton Chiles Endowment, and an assortment of trust fund sweeps and revenue diversions. The budget contains a surprisingly low \$200 million in spending cuts (only \$95 million in General Revenue). The Governor did not recommend any tax or fee increases.

This *Budget Watch* is a first review of the Governor's proposed budget and Florida TaxWatch will continue to review the state budget for a more complete understanding, and communicate that information when it is available, so that the Legislature can make the most educated decision for the people and taxpayers of Florida in these uncertain times.

Budget Highlights

Education

Pre K-12 – \$22.7 billion, including a \$179 (2.6%) increase in per-pupil spending (\$7,045) and a \$44.8 million increase in voluntary pre-kindergarten spending to handle a projected 5.8% increase in enrollment.

State Universities – \$3.6 billion, a \$100 million increase over the current year. No tuition increase (schools continue to have the authority to increase the tuition differential fee).

Community Colleges – \$2 billion, a \$67 million increase to handle increased enrollment without a tuition increase.

Health and Human Services

Medicaid – The budget provides \$2.7 billion in additional Medicaid funding, which includes approximately \$1 billion in federal assistance that is not yet assured (from the enhanced federal share of Medicaid funding authorized under the Federal stimulus bill that is set to expire on December 31, 2010 but may be extended through the entire upcoming fiscal year).

Medically Needy Program – \$402.7 million to continue the program through the next fiscal year.

KidCare – An increase of \$50.5 million.

Public Safety

The Governor recommends approximately the same level of funding for corrections, juvenile justice, the courts and justice administration. The \$5.2 billion public safety budget does include money for expanding the Juvenile Redirection Program and is counting on federal stimulus money to expand drug courts.

Environment

Florida Forever – \$50 million for the land preservation program, which was halted last year.

Everglades Restoration – \$50 million

Water Resources – \$167.6 million in matching funds for wastewater and drinking water revolving-loan programs and alternative water supply projects

Green Technologies – \$10 million for solar energy rebates. Also, \$176 million in federal funds received this year would be spent next year.

Transportation and Economic Development

Transportation – \$5.8 billion to fund the Department of Transportation’s Work Program.

Space Florida – \$32.6 million to initiate new space exploration in response to the end of the shuttle program.

Economic Development Programs – \$100 for the Innovation Incentive Program, \$25 million for the Quick Action Closing Fund, and \$15 million for the film and entertainment industry.

Tax Cuts

Corporate Income Tax – Reducing the tax rate from 5.5% to 4.5% on the first \$1 million of taxable income to save \$57.4 million.

Sales Tax Holiday – A ten-day back to school holiday to save \$52.1 million (\$42.5 million state and \$9.6 local).

Unemployment Compensation – Although not impacting the budget’s bottom line, the Governor recommends the Legislature delay a huge scheduled increase in unemployment taxes (from \$8.40 to \$100 per employee), a proposal Florida TaxWatch strongly supports.

State Employees

The budget proposal funds 128,457 positions, 326 (0.3%) more than the current budget. There is no salary increase for state employees, but the Governor does provide \$78.4 million to fund the entire increase necessary to continue health insurance benefits. Additionally, he is recommending that agency heads given the “flexibility to use unspent appropriations to provide salary increases for employees in occupations that are experiencing excessive turnover or recruitment difficulties; to provide merit pay increases and salary equity increases to deserving employees; and to increase on-call pay or shift differentials.”

How the Governor Balances His General Revenue Budget Proposal
\$ in millions

Available Revenues		
Balance forward from FY 2009-10	499.05	
Estimated FY 2010-11 Revenues	22,500.70	
Tax Relief		
Corporate Income Tax Relief	(57.40)	
Sales Tax Holiday	(42.75)	
Total Available Revenues		22,899.60
Expenditures		
Base Spending		20,757.90
Revenues Available After Base Budget		2,141.70
Spending Enhancements (over base)		
Education	928.32	
Human Services	1,146.13	
Criminal Justice and Corrections	71.85	
Transportation and Economic Dev.	303.06	
Environment & Energy	10.00	
General Government	73.16	
Statewide Issues	119.26	
Spending Reductions	(95.18)	
Total		2,556.60
Shortfall		(414.90)
Options to Balance Budget		
Indian Gaming (included in Lottery TF)	433.00	
Lawton Chiles Endowment	232.53	
Trust Fund Sweeps	351.90	
Change Distribution of Insurance Premium Tax	76.00	
50 Additional Auditors	2.90	
Reversions and Adjustments	1.57	
Total General Revenue Options		664.90
Ending Balance (cash reserves)		250.00

Spending Levels Are Optimistic

The Legislature's initial response to the Governor's recommendations has not been receptive. Lawmakers have been begun examining what they believe is a \$1 billion to \$3 billion shortfall and do not expect to be able to fund the Governor's initiatives.

The Governor is using some money that is not quite in the bank. His recommendations contain \$4 billion in federal funds, much of which has not yet been approved. For example, the budget relies on the extension of the enhanced federal Medicaid funding percentage (through the increased FMAP from the stimulus bill), which was once a good bet but now faces an uncertain future in the U.S. Senate. Even if all the federal money is approved for next year – since the Governor uses so much of it for recurring programs – it could just be postponing the problem because the upcoming fiscal year will be the last year for federal stimulus funds.

Governor Crist defends the approach of relying heavily on non-recurring money to fund recurring expenses with his expectation that the economy will rebound enough to bring in the revenue to make up the difference.

The Governor also props up his education spending with \$433 million from the Seminole Gaming Compact. The Legislature has yet to approve any compact and there is considerable opposition to allowing expanded gaming – if the compact is not ratified by the Legislature, the money will not be available.

And while the Legislature may also consider trust fund sweeps and taking money from the Chiles Endowment, these too are non-recurring band-aids. Florida TaxWatch would have liked to have seen more focus on reducing recurring spending. The \$200 million in budget reductions in the Governor's proposal is simply not enough in these lean times.

Florida TaxWatch has been sharing the recommendations of its Government Cost Saving Task Force with legislative committees and will be releasing the final report soon. Only by looking closely at the base budget and reducing unnecessary spending, which the Legislature has pledged to do, can the state get its fiscal house in order.

**This *Budget Watch* was written by Kurt Wenner, Director of Tax Research.
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Florida TaxWatch Research Institute, Inc.

www.FloridaTaxWatch.org

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About Florida TaxWatch

Florida TaxWatch is a statewide, non-profit, non-partisan taxpayer research institute and government watchdog that over its 30-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 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 to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policymakers and government employees 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, according to an independent assessment by Florida State University.

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 is the only statewide organization devoted entirely to Florida taxing and spending issues. Its research and recommendations are reported on regularly by the statewide news media.

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 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 its 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 government agencies are more responsive and productive in the use of your hard-earned tax dollars.

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