BUDGET WATCH

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The Governor's Budget Recommendations for FY 2011-12
First Proposed Budget a Bold Plan for Spending Cuts, Tax Relief

On Monday, February 7, Governor Rick Scott released his recommendations for the next state budget, and it looks much different than the current budget. The Governor's first proposed budget includes very ambitious and far-reaching recommendations for FY 2011-12 totaling $65.9 billion in state appropriations, which is $4.6 billion (6.6%) less than current state appropriations for FY 2010-11. His recommended budget contains more than $5 billion in spending cuts, proposes to lay off thousands of state employees, proposes large tax cuts, eliminates many trust funds, reorganizes several state agencies, and reduces education funding by more than $3 billion.

Even the physical document itself looks different. Instead of the normal one-year spending plan, it lays out appropriations for the next two fiscal years: FY 2011-12 and FY 2012-13. It is also much shorter than the current budget (or any budget in recent years). Instead of well over 3,000 line-items spread over 444 pages as are contained in the current (FY 2010-11) budget, the Governor's recommended appropriation bill has 469 line-items over 166 pages.

The Governor wants to cut back spending for the next fiscal year to FY 2005-06 levels. His plan also proposes reducing the budget by an additional $2.6 billion in FY 2012-13, down to $63.3 billion, which is 10.2% lower than the current (FY 2010-11) state budget. The Governor's budget would also cut taxes by $4 billion over the coming two years.

The proposed budget also eliminates 8,700 state employee positions, roughly 6,700 of which are currently filled.

Spending Cuts

The Governor's proposal would save:

- $2.8 billion (state and local savings combined) over two years through pension reform, including several Florida TaxWatch Government Cost Savings Task Force recommendations such as a 5% employee contribution, elimination of the

DROP program, and freezing cost of living increases. These changes would also increase state revenue by reducing the state sales tax revenue the state shares with local governments by the amount their employees contribute – about $350 million annually.

- $120 million over two years by consolidating, reorganizing, and privatizing state government functions and operations. Most of the savings would come from privatizing Developmental Disabilities Centers, Mental Health Facilities, and Veterans Homes.

- $150 million over two years by eliminating programs that the Governor considers "not part of government's core mission." According to documents accompanying the Governor's proposed budget, "mission creep" programs targeted for elimination include mentoring programs, local water restoration projects, the pre-trial intervention program, the state aircraft program, public broadcasting funding and numerous university and college earmarks.

- $4 billion over two years by creating a patient-directed Medicaid system that increases managed care. These savings assume Florida receives a waiver from the federal government and saves $1.4 billion from not having to comply with federal health care reform Medicaid requirements.

- $600 million through innovative management of juvenile and adult offenders by consolidating prisons, reducing employees, and strengthening recidivism programs. According to preliminary analysis by Florida TaxWatch, these reductions in the public safety area of the budget will exceed Governor Scott's commitment to cut more than $1 billion from the corrections budget over 7 years.

- $660 million by renegotiating contracts and leases.

Governor's Budget Recommendations by Program Area
Compared to Current Year Spending (billion $)

	Net Appropriations FY 2010-11	Gov's Recs FY 2011-12	$ Difference	% Difference
Education	22,428.6	19,109.5	(3,319.1)	-14.8%
Human Services	28,556.2	29,172.7	616.5	2.2%
Crim Justice and Corrections	4,704.1	3,991.1	(713.0)	-15.2%
NR/ENV/GM/TRANS*	9,830.0	8,511.5	(1,318.5)	-13.4%
General Government	4,532.2	4,666.7	134.5	3.0%
Judicial Branch	467.0	427.4	(39.6)	-8.5%
	70,518.0	65,879.0	(4,369.0)	-6.6%

*NATURAL RESOURCES/ENVIRONMENT/GROWTH MANAGEMENT/TRANSPORTATION

The budget does not restore lapsing federal stimulus money, which reduces total state spending by $1.7 billion. In addition to requiring employees to contribute to their pensions, the Governor also proposes changing the state health insurance benefit to a flat $5,000 for each employee. This would save $330 million. The proposed budget does contain $134.6 million in each of the next two budget years for employee bonuses, for a total of $269.2 million for two years.

Some state agencies would also be reorganized, including placing all economic development functions under one roof, merging the Department of Community Affairs with the Department of Environmental Protection, and combining some healthcare administrative functions.

The one major new spending initiative in the Governor's recommended budget reflects his priority to create jobs. The Governor has requested $900 million from the Legislature over two years for economic development programs and projects.

The Governor's budget also eliminates many trust funds, shifting $7.4 billion to the General Revenue Fund. This results in total general revenue spending of $32.1 billion, compared to $24.1 billion in the current year.

The Governor's budget would leave $788 million in cash reserves.

Tax Cuts

Governor's Recommended Tax Cuts
(million $)

	FY 2011-12	FY 2012-13	Two Year Total
Corporate Income Tax	1,012.9	458.5	1,471.4
Property Tax - RLE	507.6	572.0	1,079.6
Property Tax - WMD	177.8	181.9	359.7
Unemployment Comp Tax	329.4	301.4	630.8
Highway Safety fees	256.2	235.7	491.9
Other taxes, fees	40.4	36.5	76.9
Total	2,292.8	1,717.5	4,010.3

* Required local effort school taxes, and Water Management District taxes

The Governor proposes $4.1 billion in total tax relief over two years (a total of almost $550 per household over two years), including a $2.3 billion reduction in the next year (FY 2011-12).

Corporate Income Tax (CIT) – The Governor recommends phasing out the CIT, beginning with a substantial 45% reduction in the rate (from 5.5% to 3%) in FY 2011-12. The tax rate would be further reduced by half a percentage point each year thereafter until eliminated in FY 2017-18. This will save taxpayers and reduce revenues by $1.012 billion million in FY 2011-12 and an additional $458.5 in FY 2012-13.

Property Taxes – The Governor proposes reducing Required Local Effort (RLE) by $507.6 million in FY 2011-12 and $572.0 million in FY 2012-13. Required local effort is the millage rate that school districts must levy to participate in the state's school funding program – the Florida Education Finance Program (FEFP). Although the RLE is set by the Legislature each year, it is not considered as state revenue, but rather local funds. However, RLE is included in the per-student funding amount the state budget provides each year.

A two-year, 25% reduction in water management district property tax levies is also proposed to save taxpayers $177.8 million in FY 2011-12 and $181.9 million in FY 2012-13.

Unemployment compensation tax – The Governor proposes helping businesses with the large unemployment compensation tax increases they are facing by reducing benefits and delaying the assessment of an additional tax for the payment of interest on loans by the federal government until 2013. In the meantime, the state would pay the interest. These changes would save employers $301.4 million in FY 2011-12 and $329.4 million in FY 2012-13. The Governor also recommends the adoption of needed long-term reforms to the UC system, as recommended by a coalition of statewide organizations.

Highway Safety and Motor Vehicles Fees - The increased fees enacted by the 2009 Legislature would be rolled-back, such as drivers' license fees and truck fees, saving taxpayers $256.2 million in FY 2011-12 and $235.7 in FY 2012-13.

Other tax and fee cuts – The Governor wants to repeal taxes on ammonia, pesticides, fertilizer, solvents, dry cleaning, waste tires, and lead acid batteries. He also proposes repealing a $2 motor vehicle warranty fee. These repeals would save $36.5 million in FY 2011-12 and $40.4 in FY 2012-13.

Education

Education funding may be the most controversial element of the Governor's budget proposal. Three-quarters—or $3.3 billion—of the total $4.4 billion in net spending reductions proposed by the Governor are attributable to Education (see 1st table: *Governor's Budget Recommendations by Program Area*).

Total funding for the Florida Education Finance Program (FEFP)—the process for funding the state's K-12 school districts—would be reduced by $1.75 billion (9.6%), from $18.2 billion to $16.5 billion. This translates to a reduction of $703 (10.2%) per student. A per student cut of $300 has been mentioned by the Governor's Office, but that does not count $519 million attributable to the new employee pension contribution. While this is money that will be saved by districts, it means the savings will not be re-invested into education. The $300 figure also counts money that has not yet been drawn down from the federal Education Jobs Fund that was approved last year. This money is not part of the FEFP, or even part of the state budget, but it is a potential source of funding for some districts. While there may be some merit to these arguments, it does not change the fact that the per student allocation would be reduced by $703 under the Governor's plan.

Part of the reduction is attributable to $873 million in expiring federal stimulus dollars that were used last year, which the Governor does not replace. The other big reduction comes from a decrease in Required Local Effort (RLE) property taxes of $657 million. Part of this—$507.6 million—is from the Governor's proposed tax cut, the rest is from declining property values. Although the Governor says he wants to replace his RLE tax cut with state funds, and technically he does, the net effect is the new state money will replace old state funding. The total amount contributed by the state—$8.8 billion—stays roughly the same – in fact, it is $11 million less than in the current year.

The FEFP contains $2.9 billion for class size reduction.

It appears from the budget recommendations that the Governor's main priority in education is the expansion of school choice. In fact, he proposes changing the name of the Florida Education Finance Program to the Education Choice Fund. He recommends expanding the Opportunity Scholarship Program to create additional public school choice, expanding access to high-performing charter schools, and ensuring that students have access to multiple virtual education courses and programs.

Accountability and Taxpayer Understanding

As mentioned earlier, the Governor also proposes changing the budget format. In addition to a two-year budget and a vast reduction in the number of line items, each line item includes measurable performance goals. For example, the dollars in the Education Choice Fund are to be used for increasing graduation rates from 70% to 72%, and an additional 2% increase annually thereafter. Each budget heading is also followed with a brief, clear summary of what the particular program does. The performance goals and program descriptions are welcome additions to the budget document, providing increased accountability and taxpayer understanding. But while the combined line-items may achieve the goal of making the budget document more comprehensible to the average citizen, less detail may not necessarily promote transparency.

Conclusion

Governor Scott wants to change how Florida does business. The Governor's two-year budget approach promotes using the state budget as a strategic tool. Establishing goals and measuring progress towards them is a common-sense, businesslike approach to demonstrate where government creates value and addresses where it does not.

The Governor was bold and creative in producing this budget. Florida TaxWatch commends Governor Rick Scott for promoting many reform principles long recommended by Florida TaxWatch, some dating back to our December 1986 report "Building a Better Florida". Details will come out about how these changes will be implemented and more review is needed to fully understand these proposals, but Florida TaxWatch commends the Governor for the zero-based approach to budgeting, maintaining commitment to reducing taxes at a time when Florida's families and small and large businesses are struggling to survive the Great Recession, and his efforts to enhance accountability in the budget. Florida TaxWatch applauds the Governor and his staff at the Office of Policy and Budget for their great work. Such a thorough review of state spending at the deep level, in such a relatively short period of time, is something that governments do not often do.

The budget is now in the Legislature's hands. Legislatures tend to work slowly and the Governor's very ambitious and far reaching plan could face some tough sledding. House Speaker Dean Cannon and Senate President Mike Haridopolis have openly questioned whether such large tax cuts can be accomplished this year. Senate Budget Committee Chairman J.D. Alexander says he wants about $2.5 billion in reserves, far more than the less than $800 million in reserves proposed by the Governor. The Legislature will likely not react warmly to reducing education funding by $700 per student and many of the earmarks the Governor wants to eliminate have significant legislative support.

Even though the Governor's recommendations may not be enacted in their entirety, or even if some of the specific ideas may require considerably more review and adjustments, Florida TaxWatch recommends that the Legislature give these recommendations serious consideration. There are sound concepts and some very good ideas in the Governor's proposals. Florida must show a willingness to get government expenses under control, especially in the structural areas of pension reform, justice reform, Medicaid reform, and purchasing. Our state's Governor and lawmakers realize that we cannot spend and tax our way to prosperity.

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Florida TaxWatch Research Institute, Inc.

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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 31-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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