Budget Watch

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Two Possible Scenarios Prescribed by State Law for Resolving A Projected Budget Deficit and Putting Things in Perspective

It has become almost a truism that accuracy in economic forecasting is easier to attain during periods of relative economic stability-when an economy is on the upswing-and more shaky during periods of economic downturn. When Florida's Revenue Estimating Conference met last March, there were telltale signs of a slowing Florida economy. Significant downward adjustments had to be made in real per capita income growth estimates for both FY 2000-01 (from 3.4% to 1.5%) and FY 2001-02 (from 2.9% to 2.5%).

With 15 taxes still "in play," the size of the FY 2001-2002 budget "hit" is uncertain. Better insight should be forthcoming when the Revenue Estimating Conference meets on Septerber 13. However, general Revenue projections from the slowing of economic growth plus a projected $190 million "hit" from the federal government's phasing out of the estate tax could equate to the Governor and Florida Legislature having approximately $600 million less revenue when the Legislature convenes in January than originally was anticipated. The fiscal situation could worsen if the next General Estimating Conference has to further downsize revenue estimates. Whatever the amount of shortfall, the specter of a projected budget deficit looms before us. Since Florida's Constitution requires a balanced budget, what then are the options available to Florida lawmakers should the state face a projected budget deficit as now appears likely?

The Prospect of a State Budget Deficit: Where To From Here?

According to state law, a projected deficit occurs when the official estimate of funds available in the General Revenue (GR) Fund for a fiscal year falls below the total amount appropriated from the General Revenue Fund for that fiscal year.

State law specifies further the responsibilities of the Governor, the Courts, the State Legislature and the State Comptroller should there be a projected deficit in the GR Fund. If the Governor determines, after consulting with the Revenue Estimating Conference, that there will be a GR Fund deficit, he is to so certify to the Joint Legislative Budget Commission and the Chief Justice of the Florida Supreme Court. It is the Comptroller's duty to ensure that the revenues collected will be sufficient to meet appropriations and that no deficit occurs in any fund of the state.

Two Alternative Scenarios Triggered by State Law

Sate law specifies two alternative triggering mechanisms for launching government action when the state is faced with a projected deficit:

(1) If the deficit is deemed to be 1.5 percent of, or less than, the amount appropriated from the General Revenue Fund, **the Governor and the Chief Justice are required to develop and submit to the Commission and to the Legislature, plans of action to eliminate the deficit for their respective branches.**

(2) If the projected deficit is deemed to exceed 1.5 percent of the moneys appropriated from the General Revenue Fund during a fiscal year (or when the cumulative total of a series of projected deficits exceed 1.5 percent of the moneys), the responsibility for resolving the problem shifts to the Florida Legislature.

How to Get There From Here. Under Trigger No.1, state law requires that the Governor and Chief Justice, to the extent possible, preserve legislative policy and intent. Unless specifically directed to the contrary in the General Appropriations Act, they shall comply to the following guidelines in reducing the approved operating budgets of the Executive and Judicial branches:

- Entire statewide programs previously established by the Legislature should not be eliminated.

- Education budgets should not be reduced more than provided for in s. 215.16(2).[1]

- The use of nonrecurring funds to solve recurring deficits should be minimized.

- Newly created programs that are not fully implemented and programs with critical audits should receive first consideration for reductions.

- No agencies or branches of government receiving appropriations should be exempt from reductions.

- When reductions in positions are required, the focus should be initially on vacant positions.

- Any reductions applied to all agencies and branches should be uniformly applied.

- Reductions that would cause substantial losses of federal funds should be minimized.

- To the greatest extent possible, across-the-board, prorated reductions should be considered.

- Reductions to statewide programs should occur only after review of programs that provide only local benefits.

- Reductions in administrative and support functions should be considered before reductions in direct-support services.

- Maximum reductions should be considered in budgets for expenses including travel and in budgets for equipment replacement, outside consultants, and contracts.

- Reductions in salaries for elected state officials should be considered.

- Reductions that adversely affect the public health, safety, and welfare should be minimized.

- The Budget Stabilization Fund should not be reduced to a level that would impair the financial stability of this state.

- Reductions in programs that are traditionally funded by the private sector and that may be assumed by private enterprise should be considered.

- Reductions in programs that are duplicated among state agencies or branches of government should be considered.

State law further specifies that projected deficits under Trigger No. 1 shall be resolved by the Commission for the Executive Branch and the Chief Justice of the Supreme Court for the Judicial Branch utilizing the above-referenced guidelines. Legislative appropriations voluntarily placed in reserve can be used as well as can any directions in the General Appropriations Act relating to the resolution of deficits. The Executive Office of the Governor, Acting for the Commission, and the Chief Justice for the Judicial Branch, shall implement the deficit reduction plans through amendments to the approved operating budgets in accordance with s. 216.181[2]

Trust Fund Deficits. State law also specifies that the Governor for the Executive Branch or the Chief Justice for the Judicial Branch shall, if advised by the Revenue Estimating Conference, the Comptroller, or any agency responsible for a trust fund that a deficit will occur with respect to the appropriations from a specific trust fund in the current fiscal year, develop a plan of action to eliminate the deficit. As with a projected GR deficit, the governor or the Chief Justice, in developing the plan, to the extent possible, shall preserve legislative policy and intent and, absent any specific directions to the contrary in the General Appropriations Act, shall prorate among specific appropriations made from the trust fund for the current fiscal year any reductions in appropriations from the trust fund for the fiscal year.

Most Likely Scenario, According to Florida Statutes

1.5% of the moneys appropriated from the GR Fund equates to about $300 million. Therefore, **unless**

forthcoming Revenue Estimating Conference projections unveil an unanticipated revenue windfall, a projected deficit will need to be certified.

Whereas there is some speculation that the economy could rebound later next year, it is likely in the near-term that revenue estimates will remain stagnant. The national employment rate has jumped to 4.9%, the highest it has been in four years. Moreover, it is anticipated that the economy in January--normally a big month for sales and corporate income taxes--likely will be flat. Intangibles taxes too should not be generating as much revenue as they otherwise may have due to the stock market's substantially poor performance in comparison to recent years.

If, as anticipated, the projected deficit will exceed 1.5% of the moneys appropriated from the GR Fund, the task of resolving the projected deficit shall fall to the Legislature, according to state law. It is unclear whether the Legislature will call a Special Session to resolve the matter should the responsibility default to them or wait until they convene for the regular session in January.

Where To Then? Once a projected deficit is certified, there are four options for its resolution:

(1) Reducing agency budgets uniformly

(2) Using nonrecurring funds from the Working Capital Fund to offset it

(3) Using nonrecurring funds from the Budget Stabilization Fund to offset it

(4) Using some combination of funds from the Working Capital Fund and Budget Stabilization Fund to offset it

Florida's Intangibles Tax Cut and the Projected Budget Deficit

The intangibles tax, especially in recent years, has put Florida at a competitive disadvantage in fostering economic development vis-à-vis most other states which do not have the tax (see Florida TaxWatch March, 1999 Research Report entitled, "Improving Florida's Competitive Position by Eliminating the Intangible Personal Property Tax" at (www.floridataxwatch.org). It is implausible that the phasing out of the intantibles tax over the past three years through a rate reduction has had a dampening rather than stimulating effect on Florida's economy or, other things being equal, heightened the prospect of there being a budget deficit. The greater likelihood, had the tax cut not occurred, is that the money would have been spent anyway and succeeding budget cuts have to be that much deeper.

FY 2002-2003 Budget Implications

When nonrecurring funds from the Budget Stabilization Fund are used to resolve a certified deficit, the state is obligated to pay back those moneys with recurring revenues in the next five years. Future GR would have to be diminished to replenish moneys that the state essentially will have borrowed from the nonrecurring Funds.

PUTTING THINGS IN PERSPECTIVE

Perspective on the significance of a projected budget deficit in FY 2001-2002 can be gained by comparing proportionally the scale of the approximate $600 million short-fall potentially to be faced by the Governor and Legislature during the upcoming Legislative Session with that which occurred during the 1990-91 Fiscal Year, a fiscal period hounded by an economic recession.

As shown below, the projected GR Fund in FY 2001-02 is almost two times as large as that of FY 1990-91, and the size of the projected deficit faced in FY 2001-02 is half that which occurred in FY 1990-91. The ratio of GR to the projected deficit in FY 2001-02 is 1 to 34 as compared to a 1 to 9 ratio in FY 1990-91.

FiscalYear	GR Fund	Deficit	GR Deficit Ratio
2001-02	$20.2 Billion (Est.)	$600 million (Approx.)	1 to 34
1990-91	$11.3 Billion (Actual)	$1.2 Billion (Actual)	1 to 9
Today's Difference	1.8 X Larger	2 X Smaller	.

Today's Working Capital Fund balance of $297.2 Million (see below) has $124.2 million more than the $173.0 Million available in FY 1990-91. Today's Budget Stabilization Fund of $940.9 Million provides a cushion that was not even available in 1990-91. The two reserves today are 7.2 times larger (approximate) than they were in FY 1990-91.

FiscalYear	Working Capital Fund	Budget Stabilization Fund	Total Reserves
2001-02	$297.2 Million[3]	$940.9 million	$1.2 Billion
1990-91	$173 Million (Actual)	N/A	$173 Million
Today's Difference	1.7 X Larger	100% Larger	7.2 X Larger

While FY 1990-91 GR budget reductions resulting from the recession were no doubt painful, as Florida TaxWatch reported in July, 1999, "no student was denied an education because of the reduction, no criminal was turned back to the general population because of the reduction, and no indigent Floridian was denied other necessary needs of Florida's citizens and taxpayers."[4] Floridians should expect no less-and even more-during the upcoming budget cycle.

ENDNOTES

1. s. 215.16(2): If the state appropriations from the General Revenue Fund for the benefit of the uniform

system of public free schools, state institutions of higher learning, and community colleges cannot be paid in full during any given year, they shall be diminished only in the same proportion that appropriations for all other purposes from the General Revenue Fund are diminished during such year. Additionally, any funding reductions to public free schools, state institutions of higher learning, and community colleges shall be diminished in proportions identical to one another. For the purpose of implementing this section, general revenue funds provided for public free schools, state institutions of higher learning, and community colleges shall be restricted to general revenue funds appropriated for the Division of Public Schools and Community Education, the Division of Workforce Development, the Division of Universities, excluding the general office of the Board of Regents, and the Division of Community Colleges, excluding the division office.

2. s. 216.181: The General Appropriations Act and any other acts containing appropriations shall be considered the original approved operating budgets for operational and fixed capital expenditures. Amendments to the approved operating budgets for operational and fixed capital outlay expenditures from state agencies may be requested only through the Executive Office of the Governor and approved by the Governor and the Legislative Budget Commission as provided in this chapter. Amendments from the judicial branch may be requested only through, and approved by, the Chief Justice of the Supreme Court.

3. Does not include closing out of last Fiscal Year, so is not certified forward; since unused appropriations could increase and lower revenues decrease it, amount could be relatively stable.

4. See Florida TaxWatch July, 1999 *Research Report* entitled, "Anticipating the Effects of an Economic Recession on Florida's Budget" at www.floridataxwatch.org.

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