



Issue Brief
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The FY 2010 State of Florida Budget: A Few Good Elements, But Mostly Troubling

This Issue Brief contains analysis and commentary on the recently passed state budget. The 2009 legislative session was disappointing. Revenue shortfalls coupled with rising demand for services led to an inadequate budget, which would have been much worse if federal stimulus dollars were not used. The budget could have been improved if the Legislature had made progress in addressing the state's antiquated tax structure by closing tax loopholes and interjecting greater fairness in the system. Comprehensive and serious revenue reform was not accomplished. The Florida Center for Fiscal and Economic Policy (FCFEP) expected better. Before the 2009 legislative session, FCFEP recommended comprehensive changes to modernize Florida's revenue structure and make it fairer. Those changes could have produced more than \$4 billion each year for vital state programs and services. (See [*Florida's Fiscal Crisis: The Prescription*](#))

The Good

Some FCFEP Suggestions Were Adopted

When the Legislature adjourned, only three of the proposals put forth by the Center had been approved, even though many other suggestions were supported by many stakeholders and some key legislators: higher tobacco taxes, tuition increases (and an increase in financial aid), and closing a loophole in documentary stamp taxes on real estate transactions.

The effect of the changes adopted by the Legislature will be relatively modest in comparison to Florida's needs. Together they will account for only \$2 billion of Florida's \$66.5 billion budget for the next fiscal year – as contrasted to the \$5.3 billion in federal stimulus funds used by the Legislature to balance the budget.

Tax Modernization Debate Began

It can also be considered as positive that debate on the merits of addressing some aspects of Florida's tax policies at least started. Especially in the Senate, there was a willingness to begin an earnest consideration of fixing problems with the state's tax policies, including hearings on bills designed to address inequities in Florida's corporate income tax. In addition, both the House and the Senate held meetings that examined Florida's sales and use tax.

The Troubles

Minimal Progress on Tax Modernization

Without question, the 2009 Legislature did not make progress on comprehensive tax reform and modernization. In light of the short window of time to replace the stimulus dollars that will cease in two years, this lack of progress is very troubling. They did not fix nor make any substantial progress towards fixing the four major problems with Florida's tax structure:

1. Florida has no personal income tax and therefore our state is dependent on the sales tax and other taxes on consuming goods for the majority of its revenue. This structure is regressive, requiring lower-income people to pay more of their earnings in taxes than those with higher incomes.
2. The tax system also fails to treat various components of the economy equitably, providing advantages and preferences to some individuals and businesses without good economic justification.
3. Florida taxes the purchases of goods, but not purchases of services even though the economy is largely service-based.
4. Finally, Florida's tax structure contains numerous exemptions, exclusions and subsidies that serve no reasonable public purpose.

Most FCFEP Proposals Left on the Table

These FCFEP proposals to modernize the tax structure and make it more equitable were not adopted by the Legislature:

- raising \$208 million in removal of selected sales tax exemptions;
- raising \$966 million by extending the sales tax to some of the 121 services currently excluded;
- recovering \$24.7 million annually from ending subsidies to professional sports teams;
- expanding the taxation of Internet sales;

- implementing combined reporting to stop corporations from artificially shifting profits earned in Florida into subsidiaries in low-tax or no-tax states;
- removing the exemption of Limited Liability Companies and Subchapter S corporations from corporate income taxes;
- reducing the Corporate Income Tax rate to 4.5%;
- reinstating the intangibles annual tax.

The Legislature Relied Too Heavily on Harmful Cuts

Instead of comprehensive tax restructuring and modernization, the Legislature imposed reductions and cuts that hurt people needing the following programs:

- community care for the elderly,
- nursing homes,
- Alzheimer's Disease program,
- food banks,
- hospital inpatient and outpatient services,
- minority health initiatives,
- guardian ad litem services,
- independent living for children in foster care,
- pre-paid health plans,
- county health departments (i.e., clinic services),
- juvenile justice prevention services, and
- community corrections probation services and substance abuse programs.

The Legislature also continued to inadequately fund K-12 education, and now some school districts will be forced to lay off teachers and 23 districts will receive less money per student than in the current year. The funding for K-12 students for FY 2009-10 is \$6,873 per student. While this is a \$28 increase over FY 2008-09, it is significantly less than the \$7,143 per student funding in FY 2007-08. To make matters worse, the per student funding amount for FY 2009-10 includes \$348 of federal stimulus funds, which represents about \$7,000 per classroom – funds that will disappear in two years.

Failed to Help Thousands of Unemployed and Reduce Business Taxes

Also, the Legislature did not take advantage of \$444 million in federal stimulus dollars to provide additional help to the unemployed. These funds are enough to pay for six years of the new benefits, helping about 40,000 Floridians qualify for unemployment insurance without requiring a permanent change in unemployment compensation eligibility. Further, because this major infusion of federal funding comes all at once, it would reduce the automatic tax increase that will become effective next year. Our analysis finds that the funding due from the Unemployment Insurance Modernization Act would cut expected unemployment compensation tax increases by 20 percent next year, saving employers \$105 million in taxes.

Earmarks

FCFEP reviewed the 2009 state budget and discovered numerous “earmarked” items. Earmarked items, either directly by line item or in proviso, may provide direction to a state agency on how the specific appropriation is to be administered. In other instances, an earmark removes funding for the general purpose of the appropriation and directs funds to a specific project or group, often by legislator influence, and not based on statewide prioritized need, and often to benefit one area of the state at the expense of another.

This is not to imply that a specific earmark is without merit, but rather, that funding is transferred from issues that may have a higher statewide need, or favors one area of the state at the expense of another. In addition, earmarks spend funds that could have been used to reduce cuts to important state programs, or reduce the need for additional revenues. This is of concern because of the significant reductions to critical state programs in this budget (and during the past year) and the fee increases adopted by the Legislature that affect large numbers of Floridians, especially those who can least afford the increase.

Generally, the FCFEP believes that the fewer earmarks in the budget, the better. Both the Senate and House leadership expressed a desire to reduce earmarks before the session, and similar discipline should be exercised in the difficult budget years ahead.

Recommendation

The budget passed last week is at best a stopgap measure that puts off necessary changes in Florida’s tax structure. When stimulus dollars run out next year, we’ll be back in the same dire situation we’ve faced for three years – unless we get serious now about comprehensive tax modernization. We hope the Senate, House of Representatives and Governor will use the months ahead to begin a serious, comprehensive review of Florida’s revenue system, as we’ve called for previously. Florida can broaden the base of taxation, lower the rate, and produce a revenue structure that is fairer, better able to withstand economic downturns, and adequate to meet the needs of a great state. Inaction now will only produce even worse problems a year from now, when the federal stimulus funding is scheduled to end. We stand ready to work with the Legislature, Governor and anyone else in providing information that can help make Florida a better state for our people.

The Florida Center for Fiscal and Economic Policy will monitor and periodically report on the financial status of the current budget and provide information on the needs (both revenues and programs) that face the State of Florida for the next budget.

This report was researched and written by John Hall, Mike Walsh and Alan Stonecipher. The Florida Center for Fiscal and Economic Policy conducts independent research and educates the public and policymakers on state fiscal and economic policies with particular attention to their impact on low- and moderate-income families, individuals and small businesses.

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