



*Florida's  
Escalating Fiscal Crisis:  
The Problem*

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## **ACKNOWLEDGEMENTS**

The mission of the Florida Center for Fiscal and Economic Policy is to perform and review research on state-level fiscal and economic matters, particularly in regards to their impact on low and moderate/middle income families and individuals and indigenous small businesses owned by, and employing, such families and individuals.

**Florida's Escalating Fiscal Crisis: The Problem** was researched and written by John Hall, Michael Walsh, Alan Stonecipher, and Karen Woodall.

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## Executive Summary

Florida's Fiscal Crisis: The Problem seeks to define the scope of our state's fiscal dilemma, its consequences to state services, and offers recommendations to address the problem in the short and long term. Quite simply, the problem is that the entire country is in economic recession causing state revenue to drop and creating large shortfalls in state budgets. Florida is one of 41 states with significant revenue shortfalls that are facing serious fiscal stress.<sup>1</sup> In addition to the influence of the economy, our state's antiquated and unbalanced tax structure has also contributed to Florida's fiscal crisis.

State government must operate with a balanced budget. The Legislature has dealt with shortfalls in revenue by what they term "tightening the belt" of the state budget which led to a \$6 billion reduction over the past three years. Although Florida's revenue held in "rainy day" and reserve accounts allowed a few holes to be plugged, the consequences have been severe. Critical and vital state services, including the services needed by Florida's most vulnerable individuals and families, such as the disabled and elderly, have been reduced as a result of state wide budget cuts. Critical areas of the budget – education, health and human services, and the state court system – can not withstand further reductions without further eroding their capability to function.

To make matters even more problematic, the need for state services has increased, but workload and cost of living adjustments have gone unattended. At the same time, national rankings of quality and fiscal efforts in various state programs rank Florida very low. Criminal Justice and Corrections is the only area of the budget that has received an increase in appropriations over the past three years. While the fiscal investment in prisons has gone up, funding for students in K-12 has dropped by \$156 per student. These factors would suggest that Florida values education less than incarceration which is, we suspect, an unintended outcome.

Over the past three years, Florida has experienced a 17.1% reduction in recurring general revenue. Economic forecasts predict a continuing decline in general revenues until 2010 or later. The budget shortfall for fiscal year 2009 - 2010 is over \$5 billion. For the short term, reserve funds should be used again to address additional shortfalls in fiscal year 2008 - 2009. However, a new approach is needed for the long term future of the state. A soon to be released companion report entitled Florida's Fiscal Crisis: The Prescription will point out the factors that cause our tax structure to become antiquated and unbalanced, and suggest specific enhancements that will align the system with today's economy and provide more balance, fairness and growth necessary in the near future. Our tax system must be modernized. An examination of exemptions and exclusions to sales and use taxes, subsidies and other tax preferences is recommended. The goal should be to make the system fairer, improve stability, and enhance revenues to meet unmet needs and improve the quality of state services.

## **Introduction**

Florida is in a fiscal crisis. Two factors are responsible for this crisis – the economy and the inadequacies of the state’s tax policies and structure. Information in **Table 1** summarizes the economic factors affecting Florida’s fiscal crisis. Per capita income adjusted for inflation has dropped, private housing starts have plummeted and are expected to continue to decline next year, tourism is stagnant, and the unemployment rate is rising. The problems with our economy have caused financial problems for many Floridians, especially in the budgets of those with low and moderate incomes.

Although the economy is responsible for some of the problem, responsibility also lies with the structure of Florida’s tax policies and the resulting tendency to rely heavily on consumption, as well as an unusual pattern of tax exemptions and exclusions. In a soon to be released companion report, the inadequacies of Florida’s tax structure and policies will be examined in depth and will include recommendations for modernizing the system.

General Revenue peaked in FY 2005 – 2006. Revenues are not projected to exceed FY 2005-2006 until FY 2010 – 2011; this means there will be a five year period of flat or declining revenues during a time when there is an increasing demand for state services. Furthermore, in each of the past two fiscal years significant shortfalls in revenue have occurred after the passing of an Appropriation Act, which requires reductions to help balance state budget. As stated above, the amount of revenue forecasted for future state budgets has also declined leaving the Legislature with even less money to appropriate than during the prior budget year.

The Legislature has responded with a single solution to Florida’s fiscal problems -- reducing its size by close to \$6 billion over the past two years and “plugging holes” with non-recurring reserve revenues maintained in various trust accounts and a budget stabilization fund. Reductions are cuts in funding for programs and services and result in additional unmet needs and more people on waiting lists for services. So far, examination of the numerous tax exemptions and exclusions to generate revenue has been an unacceptable alternative for the governor and the majority of the legislative members.

Any further “tightening of the belt” of the state budget is very likely to erode the capability of Florida’s state government to responsibly operate already under-funded programs at all—and will result in costly consequences. For instance, at some point schools cannot teach their students without the funds needed to employ teachers or to pay the cost of transporting the students to school. An undereducated workforce leads businesses to leave our state or prevents them from expanding or locating in Florida, which in turn results in fewer jobs and ultimately less revenue from taxes. Infant mortality rates and childhood diseases will increase if the state narrows eligibility criteria or eliminates coverage of services under the Medicaid and KidCare programs as a means to reduce the state budget. Critical prevention and early intervention programs must be funded at adequate levels to sustain effectiveness and thereby reduce the need for more costly alternatives such as inpatient and emergency health care.

Belt-tightening as an approach is important to sorting out critical priorities and can lead to new levels of efficiency. The use of reserve funds is also reasonable for addressing revenue shortfalls in the short term. However, a new approach is required over the long term. The approach we believe is required to ensure Florida’s best future is described in the recommendations section of this report. Our intent is to paint a picture of Florida’s fiscal crisis that everyone can understand, with the hope of reframing the discussion.

**Table 1**  
**Selected Indicators of Florida's**  
**Economic and Fiscal Crisis<sup>2</sup>**

	<b>FY2007-08</b>	<b>Projected FY2008-09</b>	<b>Projected FY2009-10</b>	<b>Projected FY2010-11</b>
<b>Real Per-capita Income</b> (in 2000 \$)	\$31,666	\$31,307	\$31,504	\$31,649
<b>% change</b>	-0.3%	-1.1%	0.6%	0.5%
<b>Private Housing Starts</b> (thousands)	79.3	48.4	50.1	78.2
<b>% change</b>	-51.6%	-39.9%	3.5%	56.0%
<b>Visitors</b> (thousands person trips)	83,358.2	82,342.1	82,850.7	83,645.0
<b>% change</b>	0.8%	-1.2%	0.6%	1.0%
<b>Unemployment Rate</b>	4.66%	7.25%	8.04%	7.02%
<b>Percentage point change</b>	1.03%	2.59%	0.79%	-1.02%
<b>Population</b> <sup>3</sup>	18,826,376	18,899,347	18,978,698	19,285,937
<b>growth rate</b>	0.56%	0.39%	0.43%	1.61%

In the first section of this report, four important areas of the state budget are examined to reveal the disturbing implications and consequences the state fiscal crisis and the lack of funds to appropriate sufficient dollars to meet needs. The education system, health and human services, corrections and the court system are highlighted. In the second section, a three year analysis of state appropriations is given to illustrate trends over the past three years for relevant background on the state budget. The third section examines Florida's revenue trends and shows how it is insufficient to meet budgetary demands. Finally, recommendations are offered for consideration.

## **Crisis in Critical Areas of the Budget**

### **(1) Education**

The decline in state revenue has resulted in funding cuts that impact the four million Floridians who attend a tax-funded public pre-kindergartens, K-12 schools, community colleges or state universities. If addressed only through budget-cutting, continued revenue shortages in both this fiscal year and the next fiscal year would force schools, colleges and universities to operate on hundreds of millions of dollars less than they were just two years ago. Such large budget cuts will seriously impact the quality of education in a state that is already well below national averages in a variety of funding and performance measures.

Although many factors affect student performance, including socioeconomic status, education of parents, teacher quality and parental involvement, the state's spending levels also play a critical role. In the current 2008 - 2009 fiscal year, which began July 1, universities, community colleges and K-12 school districts were appropriated less *state* funding than just two years ago. Public school total funding declined 7.6% or \$992.5 million from Fiscal Year 2006 – 2007. But the general revenue appropriation, the mainstay of state education funding, declined 9.9%, even though enrollment remained nearly the same over the two-year period.<sup>4</sup>

For education as a whole, including the Voluntary Prekindergarten Program, 2008 - 2009 appropriations have declined 8.9% or \$2.1 billion. For state universities, the total funding decrease was 6.8% as tuition increases made up a small portion of a 7.9% decrease in general revenue funding. Community colleges have experienced a 12.3% decline in appropriations in two years.

#### **Public School Funding Shifts Toward Increased Local Share**

Public schools are financed by a combination of state, local and federal funds. Most state funds appropriated to K-12 schools by the Florida Legislature are devoted to the Florida Education Finance Program (FEFP). This program is funded almost totally from sales taxes and other general revenue funds while local revenue for public schools is provided almost entirely through property taxes. Each year the legislature bases the amount to be generated as the Required Local Effort for the FEFP based on property valuations. School boards then set the property tax rates necessary to yield the required amounts.

Historically, state funding has provided well more than half of total funding for public schools and as recently as 2001 - 2002, the state provided 60% of FEFP funding. In 2008 - 2009, however, the state share is only 49% (\$9.0 billion) and the local share more than half (\$9.8 billion).<sup>5</sup>

In effect, the state has disguised its declining commitment to the funding of public schools over the past decade by mandating larger tax collections by local school districts.

## The Impacts of Florida's Under Funded Education System

- Total per student funding has declined by \$156 per student or 2.2%, from the \$7,144 per student in 2007 -2008 to \$6,988 per student in 2008 – 2009.
- Per capita state and local government expenditures for all of education rank 49th among the states and per capita state and local spending for K-12 schools 41st.<sup>6</sup>
- Education Week magazine ranked Florida's K-12 spending level in the "F" category in its Quality Counts 2008 assessment of U.S. education. The fact that only 3.8% of Florida students attended school in 2005 in school districts with per-pupil expenditures at or above the national average was a key factor in producing such a poor score.<sup>7</sup>
- School districts, colleges and universities already have taken a variety of budget-cutting steps to deal with lower revenues. State universities have limited enrollment, preventing several thousand qualified students from attending a public four-year university. Meanwhile, some universities are trying to make up for their lost revenue by accepting more out-of-state students, who pay quadruple the tuition paid by Florida residents. By reducing out-of-state tuition from \$18,000 to \$12,000 per year,<sup>8</sup> Florida universities are attracting more out-of-state students. But by enrolling more out-of-state students while limiting overall enrollment it becomes harder for Florida residents to receive a higher education.
- The ratio of students in the State University System per tenure or tenure-track faculty is now the highest in SUS history.<sup>9</sup> Community colleges, which open their doors to all Florida high school graduates, have also increased class sizes, rely on less experienced faculty, and defer maintenance and technology purchases.
- At the K-12 level, districts have reduced hiring, dipped into reserves, delayed construction and changed school schedules in their efforts to reduce costs. As of the middle of October, fewer than half as many school districts as in previous years have completed contract negotiations with teacher unions, saying they have little or no money for pay raises. The 2002 constitutional amendment lowering class sizes may be changed in some fashion to make it easier for schools to comply, legislative leaders say.
- The future looks worse if a new approach is not undertaken, as Florida Senate's Chairman of the Education Appropriation Committee stated, "We've probably cut everywhere we could possibly cut." In the 2009 legislative session, "It's going to be a 'do you want to die by hanging or shooting' kind of thing."<sup>10</sup> The significance of this dilemma is further complicated by the fact that Florida's high school graduation rate ranked 44th among the states and 10% lower than the national average in the latest Quality Counts report (although Florida's Department of Education uses different methodology and reports a higher graduation rate.)<sup>11</sup> Too few students who manage to graduate from high school are fully prepared to succeed in college. Fifty-five percent of students entering college in Florida, primarily those entering into community college, require

remediation in mathematics, reading and/or writing, according to an official state study.<sup>12</sup>

## **(2) Health and Human Services**

Already under funded health and human services programs face increased pressures during times of economic crises. People lose jobs and their health insurance. Some are fortunate enough to be eligible for Medicaid, a vital safety net program that is always the target of budget reductions. Others join the ranks of the uninsured and forego treatment causing routine and preventable ailments to become urgent emergencies which adds to the uncompensated care bill the public must pay. Some people turn to alcohol and drugs as a means to cope. People experiencing depression and related mental health issues become more prevalent. More people require help with basic needs like shelter and food as well. Families have more stress added to their lives due to economic circumstances and unfortunately some become abusive situations – for spouses, children and even the elderly parents who live with their adult children. Families supporting their disabled children also undergo significantly greater amounts of stress as caregivers which sometimes lead to crises in the stability of care. The uninsured, abused and neglected children, the elderly, and the disabled are the primary target populations for health and human services programs.

The reality in Florida is that the state’s existing capability and capacity to meet such increased demands for various health and human service programs is grim. There already is a very significant gap between the funded capacity of programs and the actual need for health and human services. Even if the Legislature were to maintain current funding levels, it is still a cut in health and human services and restricts the access and the quality of services at a time when demand for services is increasing.

### **Consequences of the Failure to Fund Health and Human Services Needs in Florida**

Appropriations for health and human services have been essentially frozen since FY 2006 – 2007 at \$323 million, an inadequate level as demand for services will be increasing as the economy continues to deteriorate. As the following examples illustrate the number of people who are currently in need of service but are denied access or are subject to various forms of limitations in state funded services due to existing funding constraints is substantial.

- While progress has been made, caseloads among child protection workers are still set at levels above national standards.
- Staff to patient ratios in nursing homes are inadequate according to national standards affecting the frequency with which staff have contact with vulnerable seniors in nursing homes.
- Already funded at \$15,000 per person per year below the national average, community services and supports for people with disabilities were further reduced and funding levels for individuals were capped to ensure cost containment. Rates for providers have also been cut and caseloads of support coordinators increased which further limit access and choice. These factors have caused over 4,000 people to request an administrative review in order to demonstrate their need for services -- now eliminated but previously considered

medically necessary -- thereby seriously increasing administrative costs and at the same time increasing risks in health and safety among people with disabilities and their families.<sup>13</sup>

- About 21% of the state's population lacks health insurance, 5% above the national average.<sup>14</sup> Of particular concern, about 19% of all children under the age of 18 have no health insurance, while only 12% nationally lack coverage.<sup>15</sup>
- More than one of out six of Florida's children, a total of 797,000 still lack health insurance. These numbers place Florida third in the nation for the number of uninsured children. Over half, or 60.7 percent, of these children are in families with income levels that make them eligible for the state's children's health insurance program, KidCare, yet they are not enrolled.<sup>16</sup> Administrative barriers and restrictive eligibility criteria continue to keep large numbers of Florida's children uninsured.
- Thousands of people are already on waitlists for vital and critical services and have been waiting for years. (*Waitlists are like queues where an individual determined eligible for a program's service cannot be enrolled until additional funds are made available to the program. Too frequently, individuals wait for years to gain access to programs and services. Consequences from waiting for services often include deteriorating physical and mental health that results in crisis situations that have more costly human and fiscal outcomes.*) Over 5,000 seniors on the waitlist for the nursing home diversion program, another 1,493 waiting for services from Home Care for the Elderly, and 17,254 are waiting for services from the Community Care program.<sup>17</sup> There are two waitlists for services that people with developmental disabilities must deal with – one with more than 17,000 people and another with about 6,000 people.<sup>18</sup>
- Substance abuse is a contributing factor for 40% of the country's confirmed reports of child abuse.<sup>19</sup> Yet in Florida, less than one-half of the adults in Child Protective Supervision who have case plans requiring substance abuse treatment actually receive it.<sup>20</sup> More than 17,000 people who need substance abuse services are currently on a waitlist.<sup>21</sup>
- Florida ranks 48<sup>th</sup> in the country in per capita spending on mental health services and hundreds of thousands are waiting for services. State officials estimate that there are over 325,000 adults with severe and persistent mental illness in Florida, but limited funding supports the delivery of services to only 42% of the need. About 190,000 people do not receive the services they need. In addition, officials estimate there are about 309,000 children with emotional disturbances in need of mental health services, but limited funding supports the provision of services to only 24%. Without proper care and needed services, these individuals are more likely to enter high-cost settings such as institutions and jails.<sup>22</sup> Similarly, a recent study on the problem of people with mental illness ending up in the criminal justice system conducted under the auspices of the Florida Supreme Court contains excellent recommendations and solutions that if implemented makes better use of tax dollars.<sup>23</sup>

Florida's health and human services area has other serious challenges that generally stem from inadequate financing. For instance, numerous national measures and indicators of quality and positive outcomes in the health and human services arena rank Florida near or at the bottom when compared to other states. A Commonwealth Fund study on child health system performance ranked Florida in the last quartile of states.<sup>24</sup> The most recent Annie Casey Foundation Kids Count ranks Florida 32<sup>nd</sup> nationally on measures of child well-being and reveals negative trends in various measures, such as the rate of low-birth weight babies and births to unwed mothers.<sup>25</sup>

Finally, it should be noted that current economic conditions have already affected poverty rates in Florida as increases in caseload of programs directly related to poverty are apparent. An average monthly caseload of 1,429,563 people received Food Stamps in the first five months of 2008, a higher level of participation than at any point during the last ten years.<sup>26</sup> In addition, the caseload for the Medicaid program is forecasted in fiscal year 2008 - 2009 to grow by 9.2% in comparison to the previous year – which will require increased state funding.<sup>27</sup>

### **(3) Criminal Justice and Corrections**

Agencies included in the area of criminal justice and corrections administer programs to protect and address the fundamentally important goal for government -- public safety. Effective and adequately financed criminal justice, juvenile justice, and corrections services are essential and vital components of the state's responsibility and commitment to every resident. Florida's crime rate and rate of incarceration are good indicators of how effective the state's criminal justice system is performing.

Since 1989, the rate of crime in Florida has significantly decreased from levels reported in all categories; violent crime dropped 38%, property crime dropped 48% and the total crime index rate dropped 46%.<sup>28</sup> However, more recent statistics reveal that the rate of reduction in the state's crime rate has slowed considerably, and, in fact, from 2005 to 2007, Florida experienced a slight increase in the number of total index crimes, 4.6% and violent crime, 4.5%.<sup>29</sup> In fact, Florida's crime rate increased by 1.4% between 2006 and 2007.<sup>30</sup> Finally, by way of comparison, it should be noted that the crime rate in Florida is about 22% higher than the national average.<sup>31</sup>

In Florida, the number of individuals incarcerated in our state prisons was 38,059 in 1989; it was 92,844 in 2007, an increase of 144%.<sup>32</sup> Over the last five years, the number of individuals incarcerated has increased by 20.1%, up from 77,316 in 2003. Data shows that Florida's annual rate of incarceration was 509 per 100,000 in 2006, whereas the national average was 405 per 100,000, which reflect a rate in Florida that is 20% higher than the national average.<sup>33</sup>

This data suggest that criminal justice policy has been strongly influenced by the belief that higher rates of incarceration and "tougher" sentencing keeps criminals behind bars longer, preventing them from committing more crime in the community. Sentencing and incarceration data support this observation. In 1989, those released from state prisons had served less than 34% of their sentences. This increased to 65.4% of sentences completed among those released in 1996 and 86.8% of sentences completed among those released in 2008.<sup>34</sup>

## **Can Florida Afford Current Criminal Justice Policies and Do They Make Sense?**

Higher rates of incarceration result in substantially greater requirements for funding. In 2006 - 2007, the Florida Department of Corrections spent \$52.90 per day, or \$19,308 per year, for those incarcerated in its prisons. The annual operating budget of the Department has steadily increased where other areas of the state budget have experienced declining appropriations. Over the last three years, the Criminal Justice area of the state budget has grown by almost 6% (\$252 million), from \$4.274 billion in 2006 - 2007 to \$4.526 billion in 2008 - 2009. As the population in Florida's prisons ages, costs related to the health care of those incarcerated will further increase operational costs.

Considering the crimes for which individuals were admitted to state prisons, non-violent offenses, namely drug offenses, are predominately represented. This trend is stated very concisely in a Department of Corrections Annual Report as indicated below:

*For each of the last ten years, the single largest group of prisons admissions was incarcerated for drug crimes.<sup>35</sup>*

As further evidence of the increasing trend of drug offenders entering prison, in 1995 - 1996, drug offenders represented 22.9% of all admissions and in 2006 -2007 they represented 30.6%.<sup>36</sup> Given the increasing costs of the state's high rate of incarceration and the comparatively high proportion of admissions involving drug offenses, which are non-violent crimes, rigorous consideration to increasing the state's support of drug treatment programs would seem a prudent strategy.

The Department of Corrections is one of only three state agencies that had an increase in General Revenue appropriations the past three years fiscal years; almost \$350 million. The other two agencies had a combined increase of less than \$50 million. Those dollars did not purchase rehabilitation services, but rather simply bought more prison beds and the attendant operational costs to incarcerate more inmates for longer sentences. Yet the crime rate and rate of violent crimes has increased during this period. Further, the rate of crime and incarceration in our state is comparatively very high. Serious consideration must be devoted to reforming the state's sentencing and corrections policies because building and operating more prisons is not the best solution to the state's crime problem. The costs of current policies simply do not result in benefits that substantiate such policies. Sentences are longer, recidivism is significant, rehabilitation is minimal, the violent and overall rate of crime are increasing, and substantial numbers of offenders with non-violent drug offenses are populating our prisons. Well thought out and cautious reform is needed which should then free up dollars for other areas of the state budget that are under-funded.

## **(4) Judicial Branch / State Court System**

The state court system is composed of four tiers of courts: the Florida Supreme Court, its five District Courts of Appeal, twenty Circuit Courts, and county courts in each of the 67 counties. Clerks of the Court are independent constitutional officers who's funding is not included in the state appropriation process.

The recent major court reform, referred to as Revision 7 to Article V, was approved as an amendment to the Florida Constitution by Florida voters in 1998. It was proposed originally by

the Florida Constitution Revision Commission to provide a uniform funding system for the trial courts of Florida. Previously, trial courts were primarily funded by the 67 individual counties that each court was identified with. Appellate courts were funded by the state. As a result of the county-by-county funding variations, some counties could obviously afford to provide better funding for court services, while others were able to provide only bare minimum service. Revision 7 required that both the appellate courts and the trial courts be funded through State appropriation, thus equalizing the funding levels across county lines. It should be noted that the Office of the State Court Administrator requested \$173.1 million and 1,604 positions to comply with the requirements of Revision 7 to Article V. However, the Legislature appropriated \$115.7 million and authorized 1,247.5 positions.

**Table 2** illustrates the three year appropriation trend for the judicial branch. The dollars appropriated for Florida’s court system have declined by 7.1% during a period marked with increased workload and responsibilities.

**Table 2**  
**Three Year Trend**  
**Judicial Branch / State Court System**  
**(Dollars in Millions)**

	<b>General Revenue</b>	<b>Trusts Funds</b>	<b>Total</b>
FY 2006-07	\$449.7	\$22.0	\$471.7
FY 2007-08	\$448.8	\$34.23	\$483.1
FY 2008-09	\$403.7	\$34.6	\$438.3

Between FY 2004 – 2005 and FY 2006 – 2007, statewide trial court filings have increased by 13% not including traffic offenses.<sup>37</sup> Criminal filings increased by 16% over that same period.<sup>38</sup> An even more significant workload increase occurred in real property/mortgage foreclosure filings where there was an increase of 378% between FY 2005 – 2006 and FY 2007 – 2008.<sup>39</sup>

Trial court workload comparisons nationally show that compared to other states, the workload of the judiciary in Florida’s court system is very high. Considering the ten most populous states, Florida ranks as the 2<sup>nd</sup> highest in filings per judge.<sup>40</sup> As of 2002, our general jurisdiction judges, circuit court, handle 46.5% more filings than the national average.<sup>41</sup>

**Can Justice be Served Fairly without an Adequately Funded Court System?**

Most elements of the trial courts have been negatively impacted by the simultaneous growth in case filings/ workload and recent budget cuts. Caseloads are higher and clearance rates are lower. According to the Office of the State Court Administrator, workload projections for FY 2009 - 2010 result in a shortage of approximately 75 county judges and 48 circuit judges statewide. Additionally, all traffic infraction hearing officer state funding has been eliminated, increasing the workload of existing judges by the equivalent of approximately 11 judgeships. FY 2009 - 2010 projections also indicate a statewide shortage of 28 law clerks, 34 general magistrates, 180 case managers, and 107 court administration positions.

Florida’s court system generates millions in fees and fines which is allocated to various trust funds and to the general revenue fund. The Legislature should examine its use of the revenue generated by the court system, especially the most recent increase, and consider establishing a

dedicated funding source for Florida's court system without taking dollars from general revenue to supplement the dollars available to better support court operations and to satisfy workload requirements to ensure the rule of law, public safety, and the rights of citizens.

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## **Three Years of Declining Appropriations**

Florida's budget has been spiraling downward for the past three years. From a high of \$73.6 billion in FY 2006 - 2007, it has decreased to \$66.2 billion in FY 2008 - 2009, and will continue to decline this year due to an ongoing revenue shortfall of approximately \$2.8 billion, caused by economic problems and an inadequate tax structure. Unfortunately, without a new approach this downward trend is likely to continue in the future. As discussed earlier, this decline has had a significant negative impact on programs that affect children, the elderly and the well-being of Floridians in general.

**Table 3** reports the net appropriations for the fiscal years 2006 -2007, 2007 – 2008, and 2008 – 2009.<sup>42</sup> It should be noted that each area of General Revenue appropriation (except for three state agencies) was appropriated fewer dollars in FY 2008 - 2009 than three years earlier. Education's most recent total appropriation was about \$2 billion less than the amount provided in FY 2006 - 2007; Human services was about \$300 million less; and Economic Development and General Government received over \$5.0 billion less than the appropriation for those areas in FY 2006 - 2007.

**Table 3**  
**FY 2006-2007 to FY 2008-2009 Legislative Appropriations**  
**General Revenue and Trust Funds**  
**(Dollars in Millions)**

<b>Appropriation Category</b>	<b>2006-2007 Total GR and Trust</b>	<b>2007-2008 Total GR and Trust</b>	<b>2008-2009 Total GR and Trust</b>
<b>Education</b>	<b>\$23,165.6</b>	<b>\$23,404.5</b>	<b>\$21,104.2</b>
<b>Human Services</b>	<b>\$23,695.6</b>	<b>\$23,869.5</b>	<b>\$23,372.7</b>
<b>Criminal Justice and Corrections</b>	<b>\$4,273.9</b>	<b>\$4,407.0</b>	<b>\$4,525.9</b>
<b>Eco Dev, Nat Res, Gth Mgt and Trans</b>	<b>\$17,667.7</b>	<b>\$15,278.5</b>	<b>\$13,869.3</b>
<b>General Gov</b>	<b>\$4,360.6</b>	<b>\$2,917.4</b>	<b>\$2,889.3</b>
<b>Jud Branch- State Court System</b>	<b>\$471.8</b>	<b>\$483.1</b>	<b>\$438.3</b>
<b>TOTAL</b>	<b>\$73,635.1</b>	<b>\$70,360.1</b>	<b>\$66,199.6</b>

### **Non-Recurring Revenues have been filling the Gap but are also Declining**

Non-recurring funds are generally unexpended funds from the prior fiscal year, funds derived from vetoed appropriations in the current fiscal year, and funds transferred from reserve accounts. Non-recurring funds are generally used for non operating expenditures of one year or less in duration (equipment purchases, etc.) or for fixed capital outlay purposes (building, construction, and highway paving, etc). However when recurring funds are insufficient to meet recurring

needs, non-recurring funds are used to fill the gap. **Table 4** reports Non-recurring Revenue appropriations over the past three fiscal years.

**Table 4**  
**FY 2006-2007 to FY 2008-2009 Legislative Appropriations**  
**Non-Recurring Funds**  
**(Dollars in Millions)**

Appropriation Category	2006-2007 Total GR and Trust	2007-2008 Total GR and Trust	2008-2009 Total GR and Trust
<b>TOTAL</b>	<b>\$18,814.5</b>	<b>\$15,468.1</b>	<b>\$12,7721.0</b>

It should be noted that non-recurring revenues included in the appropriations reflected in Table 3 were utilized primarily in Education and Economic Development (Department of Transportation), traditional areas for significant capital outlay needs/appropriations funded with non-recurring funds. However, there has also been a significant increase in the use of non-recurring revenues for recurring programs in the area of Health and Human Services. Non-recurring funds are also part of the state's reserves for fiscal emergencies. These reserves include the Budget Stabilization Fund, unencumbered Trust Fund balances, Tobacco Settlement reserves and unencumbered General Revenue that together totaled an estimated \$7.6 billion in FY 2007 - 2008.

## Tax Revenues are Insufficient to meet Budget Needs

As noted above, Florida's appropriated budget (General Revenue and Trust Funds) has declined from \$73.6 billion in FY 2006 - 2007 to \$66.2 billion in the current fiscal year, a decline of more than 10.0%. Unfortunately, this decline is continuing. On November 21, 2008 the Revenue Estimating Conference met and reduced estimated General Revenue funds to \$23.6 billion. **Table 5** summarizes the changes to General Revenue collections from the **original estimate** (including actions from the 2008 regular Legislative session as of June 13, 2008), the **amended estimate** as of August 15, 2008, and the **current estimate** (November 21, 2008). Reductions in available General Revenue for the budget year result in shortfalls that must be addressed to keep the budget balanced.<sup>43</sup>

**Table 5**  
**General Revenue Fund**  
**Financial Outlook Statements**  
**(Dollars in Millions)**

	June 13, 2008	August 15, 2008	November 21, 2008
<b>Est. Funds Avail.</b>			
Recurring	\$24,576.9	\$23,287.3	\$21,884.2
Non-recurring	\$728.4	\$1,019.9	\$1,748.5
<b>Total</b>	<b>\$25,305.3</b>	<b>\$24,307.2</b>	<b>\$23,632.7</b>
<b>Est. Expenditures</b>	\$25,755.9	\$25,774.9	\$25,775.0
<b>Ending Balance</b>	<b>\$594.4</b>	<b>(\$1,467.7)</b>	<b>(\$2,142.3)</b>

The General Revenue shortfall of \$2.14 billion reported on November 21, 2008 for the current fiscal year was net of a \$672 million transfer from the Budget Stabilization Fund authorized by the Florida Legislature in the 2008 General Appropriations Act. However, there remains a shortfall of \$340 million if the Legislature were to utilize \$1.0 billion from the Lawton Chiles Endowment Fund previously authorized and an estimated \$800 million generated by the four percent General Revenue holdback imposed by Governor Crist at the beginning of the 2008 - 2009 Fiscal Year. This remaining shortfall will require the use of additional reserve funds to cover it.

**Table 6** shows the dramatic decline in recurring General Revenues by tax sources over the past three fiscal years. Unfortunately, the decline in revenues continues into the next fiscal year, FY 2009 - 2010. The November 21, 2008 Revenue Estimating Conference estimated that General Revenue available for FY 2009 - 2010 would total \$22.42 billion.<sup>44</sup> This reduced General Revenue funding level will be insufficient to meet the estimated expenditure requirements, ("critical needs" only) for FY 2009 - 2010 of \$26.14 billion<sup>45</sup>; a \$3.72 billion shortfall. If "other high priority needs" are included in the funding requirements, the budget gap grows to \$5.6 billion. Critical needs (i.e. annualizations of current year activities, mandatory increases based on estimating conferences and other essential needs, which should be considered the absolute minimum the state must do absent significant law or structural changes) and other high priority needs (i.e. historically funded issues) "form a highly conservative continuation budget."<sup>46</sup>

**Table 6**  
**Source of Recurring General Revenues (GR) FY 2007 – FY 2009**  
**(Dollars in Millions)**

<b>Revenue Source</b>	<b>2006 -07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2008-09 %</b>	<b>%Chg 2006-09</b>
Sales Tax	\$19,435.2	\$18,470.5	\$17,221.2	78.7%	-11.4%
Corporate Income Tax	2,443.7	2,218.5	1,787.3	8.2%	-26.9%
Documentary Stamp Tax	625.5	197.2	154.2	0.7%	-75.3%
Beverage Tax & Licenses	637.5	601.1	588.6	2.7%	-7.7%
Intangibles Tax	772.6	436.3	226.0	1.0%	-70.7%
Insurance Premium Tax	697.4	672.1	679.7	3.1%	-2.5%
Service Charges	440.5	363.2	324.5	1.5%	-26.3%
Tobacco Taxes	279.2	281.3	273.9	1.3%	-1.9%
Investments Earnings	473.1	446.6	143.5	0.7%	-69.7%
Corporation Filing Fees	196.2	220.1	221.4	1.0%	12.8%
Other Taxes & Fees	770.1	696.1	843.6	3.9%	9.5%
Less Refunds	-366.9	-465.8	-575.4	-2.6%	56.8%
<b>Total Recurring GR</b>	<b>\$26,404.1</b>	<b>\$24,137.2</b>	<b>\$21,888.5</b>	<b>100.0%</b>	<b>-17.1%</b>

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## **Recommendations**

In crisis, there is opportunity. During this period of national and global economic turmoil, the State of Florida faces its most severe fiscal crisis in decades. State general revenue -- funds derived from the sales tax, corporate income tax and other smaller taxes and the mainstay of education, social services, courts and prisons -- has fallen by more than 17% over the last three fiscal years. Continuing declines in tax revenues threaten to create a several billion dollar budget shortfall for the 2009 - 2010 fiscal year and further declines are possible since the start of the economic recovery is uncertain.

Discussion about the consequences of revenue shortfalls and the approach used by the Legislature to address them -- "belt tightening" and reduced appropriations along with some use of non-recurring reserves to plug holes -- should clarify why additional reductions or tightening of the belt are not advisable. The thousands of teachers in the classrooms, instructional staff in higher education, and staff responsible for providing direct services to Floridians in need of health and human services have reached the limits of under-funding their programs. The state has reached its "tipping point." Serious additional damage is certain to happen if more budget cuts are adopted.

In the short term, the Florida Legislature should authorize the use of additional reserves, including unobligated trust fund balances, to offset the current-year revenue shortfall. This option is preferable to one involving more budget reductions. Floridians can no longer endure more of the consequences from the same approach used in the past.

Beginning with the 2009 Legislative session, a different perspective on the state's fiscal crisis is required. Overlooked in the debate over how to continue funding critical state programs and services, address unmet needs, reduce waitlists, and produce a balanced budget with less revenue is the fact that the structure and nature of the state's tax policy is also a significant contributing cause of the problem. An examination of exemptions to sales and use taxes as well as exclusions from services taxes is long overdue. In general, all taxes, exemptions, and exclusions should be on the "table" for thoughtful analysis and potential action. As it has done in the past, the Center will continue to recommend changes to Florida's tax policies and will offer more recommendations in the soon to be released Florida's Fiscal Crisis: The Prescription that will make the system fairer, modern and more responsive to the needs of Florida residents, businesses and visitors, without jeopardizing the state's economic recovery.

## Endnotes

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<sup>2</sup> Florida Economic Estimating Conference, the Office of Economic and Demographic Research, the Florida Legislature, October 2008.

<sup>3</sup> Florida Demographic Estimating Conference, the Office of Economic and Demographic Research, the Florida Legislature, October 2008.

<sup>4</sup> Florida Legislature Appropriation Acts, FY 2006 – 2007, 2007 – 2008, and 2008 – 2009.

<sup>5</sup> Florida Education Finance Program (FEFP) Calculations, Office of Funding and Financial Reporting, Florida Department of Education, <http://www.fldoe.org/fefp/offrefefp.asp>

<sup>6</sup> State and Local Government Finances:2004 – 2005,CQ Press, using data from the U.S. Bureau of Census; Rankings and Estimates, December 2007. National Education Association.

<sup>7</sup> <http://www.edweek.org/media/ew/qc/18shr.fl.h27.pdf>

<sup>8</sup> <http://www.tallahassee.com/apps/pbcs.dll/article?AID=/20080920/CAPITALNWEW/809200316>

<sup>9</sup> Florida Board of Governors Meeting, Sept. 25, 2008.

<sup>10</sup> <http://www.orlandosentinel.com/news/local/state/orl-shoestring2008sep20.0.3979603.story>

<sup>11</sup> School to College, Florida. Editorial Projects in Education Research Center. <http://www.edweek.org/media/ew/qc/2008/18shr.fl.h27pdf>

<sup>12</sup> Office of Program Policy Analysis and Governmental Accountability, Report No. 07-31, May 2007. <http://www.oppaga.state.us/reports/educ/r07-31s.html>

<sup>13</sup> The State of the States in Developmental Disabilities 2008, Braddock, Hemp, and Rizzilo, The University of Colorado and Agency for Persons with Disabilities.

<sup>14</sup> Urban Institute and Kaiser Commission on Medicaid and the Uninsured

<sup>15</sup> Urban Institute and Kaiser Commission on Medicaid and the Uninsured

<sup>16</sup> Families USA, “Left Behind: America’s Uninsured Children (October/November 2008)

<sup>17</sup> Florida Department of Elder Affairs

<sup>18</sup> Agency for Persons with Disabilities.

<sup>19</sup> *Harm Reduction Journal*, 2004 1:5

<sup>20</sup> Florida Department of Children and Families, Performance Scores, (2005)

<sup>21</sup> Florida Department of Children and Families, August 2008

<sup>22</sup> Florida Council for Community Mental Health

<sup>23</sup> “Transforming Florida’s Mental Health System,” Florida Supreme Court. April 2008

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<sup>24</sup> “US variations in child Health Care Systems Performance: A state Scorecard.” Shea, Katherine, Davis, Karen and Schor, Edward. May 2008. Commonwealth Fund.

<sup>25</sup> Kids Count Data Book, 2007, Annie E. Casey Foundation.

<sup>26</sup> US Bureau of the Census

<sup>27</sup> Social Services Estimating Conference - Basic Medicaid Caseloads, Historical and Forecasted: October 2008

<sup>28</sup> Florida Statistical Analysis Center: FDLE (1989-2006), Crime in Florida, Florida Uniform Crime Report (Computer program) Tallahassee, FL.

<sup>29</sup> Florida Statistical Analysis Center. (1997-2007). Crime in Florida, Florida uniform crime reports [Computer program]. Tallahassee, FL: FDLE.

<sup>30</sup> Florida Statistical Analysis Center. (1997-2007). Crime in Florida, Florida uniform crime reports [Computer program]. Tallahassee, FL: FDLE.

<sup>31</sup> National Institute of Corrections, State Corrections Statistics, 2006

<sup>32</sup> Florida Department of Corrections, Bureau of Research and Statistics, population statistics as of June 30 of each year.

<sup>33</sup> National Institute of Corrections

<sup>34</sup> Florida Department of Corrections, Bureau of Research and Statistics, Sentencing Reports

<sup>35</sup> Florida Department of Corrections, Bureau of Research and Statistics, 2007 Annual Report

<sup>36</sup> Florida Department of Corrections, Bureau of Research and Statistics, 1996 Annual Report

<sup>37</sup> State Court Administrators Office, Supreme Court of Florida

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> National Center for State Courts, Examining the Work of State Courts, 2003, (Brian J. Ostrom et al. eds., 2004)

<sup>41</sup> Ibid.

<sup>42</sup> Budget data was provided as of June 10, 2008. Data for FY 2006 – 2007 and FY 2007 – 2008 includes vetoes, failed contingencies, supplemental appropriations and reorganizations through July 1, 2006. Data for FY 2008 – 2009 includes the General Appropriations Act only.

<sup>43</sup> Office of Economic and Demographic Research, the Florida Legislature, 2008.

<sup>44</sup> Ibid.

<sup>45</sup> “Florida: Long-Range Financial Outlook,” the Office of Economic and Demographic Research, the Florida Legislature, September 2008.

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<sup>46</sup> Ibid.