



*Florida's  
Escalating Fiscal Crisis:  
The Problem*

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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.