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## **Legislature Builds Budget With Some Revenue Increases, But Low Spending Level Will Require More Cuts and Remain Inadequate to Meet Florida's Needs**

### **Budget Overview**

With the State of Florida facing a budget shortfall of about \$7 billion, the Florida Senate and House of Representatives have assembled spending blueprints that balance the books by using federal stimulus funding, budget cuts, gambling proceeds and relatively modest revenue increases.

Each chamber plans votes on their appropriations bills this week -- a \$65.6 billion Senate spending plan and a \$65.1 billion House version.

The eventual final budget, unless the legislature changes the course it's now on, will be equivalent to state expenditures of four years ago, when the legislature approved a \$65.5 billion appropriation for the 2005-06 fiscal year.

This year's budget will be about \$8 billion, or 11 percent, below the state spending peak of \$73.6 billion in 2006-07 -- **despite the addition of federal stimulus funding, proceeds from expanded gambling, fee increases and modest new revenue resulting from tax modernization.**

In other words, the state will be spending much less than a few years ago, requiring more cuts to programs and services and a continued failure to meet the needs of vulnerable segments of our population.

Florida's budget problems result from both the recession and the nature of the state's revenue structure -- regressive, too dependent on sales of goods, unfair and antiquated.

Under the current revenue structure, state economists project, general revenue funds will remain below the 2006 level at least until 2012. The result will be even more budget cuts to programs already ranked low in national rankings of quality and expenditures.

(For details about revenue projections without tax modernization, see the Center's previous report, "[Florida's Budget Problems Worsen.](#)")

Without comprehensive action, the problems may grow even more severe. The billions of federal stimulus dollars the legislature will use in the next two budgets -- bridge funding to get states through the recession -- are not scheduled to be available after 2010. The state then will have to depend on its own revenues to fund vital programs and services.

### Senate, House Approaches Differ

The Senate and House use different approaches to reach a balanced budget, although both rely on several billion dollars in federal stimulus funding. In addition, the Senate is moving forward on these revenue bills:

- a \$1-per-pack **cigarette tax** that would yield about \$983 million in the first year ([CS/SB 1840](#), passed by Policy and Steering Committee on Ways and Means April 7);
- **expanded gambling**, estimated to raise \$568 annually ([SB 788](#), passed by Policy and Steering Committee on Ways and Means April 7, and [SB 836](#), on agenda of Policy and Steering Committee on Ways and Means April 14);
- a variety of **fee increases** ([SB 1778](#), estimated at \$365.5 million, and [SB 1724](#), estimated at \$6.3 million, both passed by Policy and Steering Committee on Ways and Means April 7);
- **closing some corporate tax loopholes** through "combined reporting" of profits, producing up to \$364 million annually ([SB 2270](#), passed by Commerce Committee, on agenda of Finance and Tax Committee April 15);
- **closing a loophole in documentary tax collections** on certain property transfers, raising about \$29 million ([CS for CS/SB 2430 and SB 1960](#), now in Policy and Steering Committee on Ways and Means).

The House, meanwhile, imposes \$738 million in new fees related to driver's licenses and operation of motor vehicles ([CS/HB 5011](#), passed by Appropriations Council on Education and Economic Development April 7). It has advanced its own documentary tax bill ([CS/HB 283](#), passed by Finance and Tax Council on April 7). It proposes a more limited gambling bill than the Senate ([HB 7129](#)).

But the House cigarette tax bill ([HB 5011](#)) has received no action since being referred to four committees on March 9. Similarly, the House bill that would eliminate the corporate income tax loophole by requiring combined reporting ([HB 1247](#)) has sat in four committees since March 9.

## Neither Chamber Moves on Other Potential Revenue Sources

Notable in both the House and Senate budgets: Both leave on the table billions of dollars that could be generated through modernizing Florida's tax structure. (See our report, [Florida's Fiscal Crisis: The Prescription](#).) Neither removes any exemptions, exclusions and subsidies to Florida's sales and use tax. Neither body has proposed a formal process to review the 246 existing exemptions and subsidies or the 121 services excluded from the sales tax.

Bills to remove one exemption -- the 1949 provision prohibiting sales tax on bottled water -- sit without action in committees. ([SB 1358](#) and [HB 681](#))

Also stuck in committees without action: [SB 2576](#) and [HB 1163](#), which would require a legislative sunset committee to review sales tax exemptions and exclusions of services. In addition, neither the House nor the Senate has acted on bills to join a multi-state agreement on extending the sales tax to purchases over the Internet. [HB 731](#) and [SB 2582](#), which would increase the sales tax by 1 cent for three years, have received no action.

## Unemployment Compensation Reforms Would Draw Additional Federal Funds

Florida's unemployment rate has reached 9.4%, with more than 874,000 Floridians out of work. The American Recovery and Reinvestment Act of 2009 (the stimulus legislation) provides incentive payments to states for "modernizing" their unemployment compensation (UC) programs. Florida is eligible to receive \$444 million.

[SB 516](#) and [HB 1333](#) would modernize Florida's UC system by enacting what is referred to as the Alternative Base Period (ABP), the period of work counted toward a worker's eligibility for unemployment compensation. Because of outdated eligibility rules that do not count their most recent work, many workers fall through the cracks of the unemployment system. Eligibility is calculated now by using an antiquated process that predates computers, when it took months to add up and transmit a worker's wages from handwritten records to a distant state agency. Today in an era of instantaneous computer calculation and electronic transmissions this methodology is outdated.

In Florida an estimated 27,000 unemployed workers would be eligible for UC if the Alternative Base Period were used. It would allow wages earned in a worker's last completed quarter of work to be counted toward UC eligibility instead of excluding it as is done now. **Florida would receive an additional \$148 million to pay for implementation of this provision, along with \$31.7 million in administrative dollars to adjust the computer system and pay for processing claims. The cost of benefits is estimated to be between \$45 million and \$51 million of the \$148 million.**

To receive the full \$444 million provided through UC modernization, states must also enact at least two additional components prescribed by the ARRA. The other two components

proposed in SB 516 and HB 1333 are part-time coverage (already being implemented by the Agency for Workforce Innovation, estimated to affect 6,000 workers) and coverage for compelling family reasons for leaving work, such as domestic violence, relocation of a spouse, illness or disability of an immediate family member. About 6,400 unemployed would become eligible through compelling family reasons.

Inclusion of these two provisions would bring an additional \$296 million to Florida, for a total of \$444 million. The cost of all three provisions to the UC trust fund is estimated to be approximately \$70 million. Passage of these bills will modernize our system and enable hard-working families to secure much-needed UC benefits to cover basic needs until they secure jobs. UC benefits put money directly into the economy as recipients spend their money on groceries, housing, transportation and consumer goods. For every dollar of unemployment benefit awarded \$2.15 is re-circulated in the economy. ([See Funding for Unemployment Compensation Program: Florida Should Take It, Not Leave It.](#))

SB 518 is scheduled to be heard in the Senate Commerce Committee this week. The House bill has not yet been scheduled. There is strong opposition from business lobbyists because of a concern that their rates will go up. Any concern about tax increases must be balanced by the fact that Florida has one of the lowest UC tax rates in the nation. Florida's tax rate is .31%, 48<sup>th</sup> in the country, and one-half the national average of .62%. Furthermore, Florida employers are taxed at the lowest "taxable wage base" permitted under federal law -- \$7,000 less than the amount of wages taxed in 41 other states.

**In addition to the provisions outlined in SB 518 and HB 1333, Florida can also provide an extra 13 weeks of unemployment compensation to workers who have run out of benefits - if the legislature takes action. This would be 100 percent federally funded for the majority of workers, although local governments that are self-insured would have to pick up the tab for the additional weeks for their laid off workers. It is estimated that more than 80,000 workers would benefit from the adoption of this provision.**

### **More Federal Dollars Depend on KidCare Legislation**

Legislation to remove barriers from the Florida KidCare program ([SB 918](#) and [HB 1329](#)) has finally started to receive some attention. SB 918 passed unanimously out of the Health Regulation committee last week and is scheduled to be heard this week in Banking and Insurance. The House bill has not moved yet, but the Rules chairman and the sponsor assure us that they are working with the Speaker on a plan. (At this point in the session the Senate President and the House Speaker determine what issues will continue to move forward.)

Action is necessary to enroll children who are already eligible and to insure that coverage continues without interruption once they are enrolled. This legislation will help maximize federal dollars available as a result of the reauthorization of the federal Children's Health Insurance Program (CHIP).

### Three Weeks Remaining for Action

With three weeks left in the session, none of these proposals has yet received final action. It is important to remember, however, that even if the House adopts the Senate's revenue increases, significant cuts are contained in each budget.

The legislature can still produce positive action to modernize the state's tax structure; likewise, time remains for movement on two proposals that would further hurt Florida's ability to adequately fund vital services.

The first, the so-called "Taxpayer Bill of Rights", or TABOR, passed in one Senate committee ([SB 1906](#)) and has been postponed in another several times. The House version ([HB 1263](#)) passed one committee on March 26. The second proposal, to cap property taxes at 1.35 percent of the highest taxable value, ([SB 738](#)), cleared one Senate committee on March 17 and is now in the Finance and Tax Committee. The House companion, [HB 385](#), has been approved by three committees.

As the budget process continues, the Center will provide additional analysis about both programs and services on the table for budget cuts and the legislature's failure to adopt reasonable proposals to modernize our tax structure and provide adequate revenue.