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Common sense ideas for Florida's future

Policy Brief

Three-Year Budget Outlook Calls for Legislative Attention

Revenue and spending projections for the next three years suggest that the state may have insufficient funds to pay recurring costs after Fiscal Year 2018-19. While legislative leaders may use projected shortfalls to reduce spending, other alternatives should receive equal consideration to ensure the adequate provision of needed services and maintaining a balanced budget.

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The Florida Legislature approved the long-range financial outlook for Fiscal Year (FY) 2018-19 through 2020-21 by the September 15 deadline. The annual outlook is intended to inform legislative budget decisions in the coming Legislative Session so that lawmakers can enact a balanced budget as required in the Florida Constitution.

Outlook projections

Florida relies heavily on sales tax revenues to fund the state budget. Sales taxes for FY 2015-16 represented more than three-quarters of the General Revenue Fund, according to the Legislature's Office of Economic and Demographic Research. The General Revenue Fund is the primary state resource for most legislative appropriations. While 87 percent of sales taxes are paid by households and businesses, the remaining 13 percent are paid by tourists. In FY 2015-16, tourists paid sales taxes of nearly $2.86 billion. This figure alone underscores the importance of tourism to Florida's economy.

The outlook projects that the Legislature will enter budget development with a $52 million surplus in General Revenue funds for FY 2018-19, after funding the base budget, critical and high priority needs, and budget reserves. It is important to note that the surplus is nonrecurring. In addition, nonrecurring funds will have to offset recurring expenditures of more than $250 million.

One caveat is necessary. The deadline for adopting the outlook is September 15 each year. In 2017, this deadline fell less than one week after Hurricane Irma made landfall in Florida. The effects of the hurricane are not reflected in the outlook and aren't expected to be better known in the immediate future.

The outlook notes that Congress has not enacted legislation that would yield federal funding for inclusion in the outlook. Anticipated federal increases in infrastructure spending have not yet materialized and federal health care funding is again a subject of congressional debate. Federal funds can significantly reduce the state funds required for transportation and human services, among other functions. It is impossible to project budget capacity without including anticipated federal funding as a critical component.

The outlook identifies disproportionately higher projected expenditures in FY 2019-20 in health and human services and in higher education. These increases reflect a depletion of trust funds in those areas and the loss of federal funding in health care. While the totals decrease in FY 2020-21, both areas will exceed their projected funding levels for FY 2018-19.

Legislative alternatives

The Legislature has an obligation to fund the state services necessary to meet the programmatic needs of qualified Floridians. There are alternatives the Legislature can employ to offset potential budget shortfalls while adequately funding services. Specifically, the Legislature could:

- Reexamine current tax preferences through which businesses and individuals are exempt from corporate tax payments to the state or credited for a portion of required payments. In FY 2017-18, the state is projected to lose more than $12 billion in revenues from tax preferences, excluding the exemptions for rent, groceries and medicine. These foregone revenues could be added back to the budget.

- Reexamine the revenues allocated to reserves. Current reserves are 11.5 percent of the General Revenue Fund. Allocating an additional $1 billion per year for three consecutive years becomes counterproductive when more immediate state needs remain unaddressed.

- Reexamine existing matching programs for which the state could draw down additional funding in exchange for marginal additional funding or policy changes. For example, federal funding for Medicaid remains available as of this publication. It makes no sense for the state to refuse this funding when the need is clearly documented and would ease the current projected budget.

The Legislature repeatedly cut the budget during and after the Recession. Now the Legislature should look at more creative options for making the budget whole. The three alternatives described above would be a good place to start.