UNIVERSITY OF FLORIDA
EXTENSION
Institute of Food and Agricultural Sciences

FE366

State General Revenues and Expenditures in Florida[1]

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A number of policy issues in Florida lead to discussions regarding the way(s) in which the state generates revenues (taxes) and the process whereby those monies are expended to support various state programs (expenditures). Included are concerns over the adequacy of revenues to meet critical state needs (education, health care, environmental protection, etc.), impacts on the state of the national recession, events affecting the tourism and travel industries, and more recently, discussions of sales tax reform in the state. To aid in understanding these concerns, this paper provides a brief overview of the major sources of taxes that support Florida's General Revenue Fund, the types of programs funded with those revenues, and the options for dealing with reductions or revenue "short falls." The paper ends with a discussion of the revenue outlook for the 2003-2004 fiscal year.

State General Revenue Funding and Appropriations

Each year as citizens and government agency officials follow legislative debates over state budgets, the issues generally revolve around the allocation of state General Revenues. The General Revenue Fund consists primarily of sales tax receipts (around 75 percent of the total) and receipts from other taxes such as the corporate income tax, the estate tax, and beverage taxes and licenses. Total expenditures from the General Revenue Fund represent about 41 percent of all state government spending, but they represent essentially all state revenues that are not earmarked for trust funds that support specific purposes and/or programs in the state.

General Revenues represent the major source of funding for a number of important state government functions that are subject to annual allocation through the legislative process. In addition to the expense of operating state government, the General Revenue Fund provides funding for education, human services, criminal justice and corrections, programs in environmental and natural resources, growth management, and transportation. The General Revenue Fund also supports the state judicial system.

Each year the General Appropriations Act is enacted during the annual sixty-day session of the Florida Legislature (April-May) to cover state spending for the fiscal year that begins on July 1 following the session. Since the state is required to have a balanced budget (Section 216.221, Florida Statutes), funding appropriated by the Legislature is limited by estimates of available revenue during the

1. This is EDIS document FE366, a publication of the Department of Food and Resource Economics, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville, FL. Published December 2002. Please visit the EDIS website at http://edis.ifas.ufl.edu.
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coming fiscal year. For example, the revenue estimate available for the 2002 legislative session and the resulting appropriations bill provided the basis for spending by state agencies, local governments, and school districts for the 2002-2003 state fiscal year (July 1, 2002-June 30, 2003). The General Appropriations Act for the 2002-2003 state fiscal year was passed by the Legislature in May 2002 and subsequently signed into law by the Governor.

In terms of dollar amounts, the General Appropriations Act for the 2002-2003 fiscal year was based on a revenue estimate of slightly less than $20 billion. Of that amount, about $14.8 billion (74 percent) was projected sales tax revenues, and the remainder was to come from other sources. Combining the forecast with other revenue considerations, the General Appropriations Act provided slightly more than $20 billion to cover fiscal year 2002-2003 expenditures. Table 1 reports the actual dollar appropriations and shows, by general category, the amounts allocated to various program areas.

The largest single program funded from the General Revenue Fund is education (Figure 1). Total education funding accounts for almost 53 percent of General Revenue appropriations. Of this amount, the largest component is funding for the K-12 public education system. Total funding for this component is almost $7.5 billion, most of which goes to local school districts through the Florida Education Finance Program. Funding for public schools makes up approximately 37 percent of the General Revenue appropriations, state universities get 8.5 percent, and community colleges receive 3.9 percent. Other program areas accounting for relatively large portions of expenditures from the General Revenue Fund include human services at 27 percent ($5.5 billion) and criminal justice and corrections at 13.1 percent ($2.7 billion). Again, numbers reported in Table 1 represent funding appropriated by the Legislature during the 2002 session to provide for state spending in fiscal year 2002-2003 beginning July 1, 2002, and are based on revenue estimates available in March 2002.

Dealing with Revenue Shortfalls

A key point in considering the numbers reported in Table 1 and Figure 1 is that they represent *appropriations* based on *estimates* of revenue available at the time of the legislative session. They do not represent actual revenues. Throughout the fiscal year, actual collections of state revenues may fail to meet projections or may exceed projections. In the latter case excess revenues can simply be carried over to the next fiscal year. However, if revenues fall short of projections during a particular fiscal year, further actions are necessary to balance the state budget.

Article VII, Section 1(d) of the Florida Constitution requires the state to raise “sufficient revenue to defray the expenses of the state.” Also, Section 216.221(1), Florida Statutes requires the Governor to ensure that “no deficit occurs in any state fund.” Thus a shortage in general revenues during the course of a fiscal year must be addressed either by increasing income into the General Revenue Fund or reducing spending.

Two general options are available for addressing revenue shortfalls. If the deficit is less than 1.5 percent of the General Revenue appropriation, the Joint Legislative Budget Commission can take steps to resolve the deficit by either reducing state spending, transferring excess trust fund balances or dipping into the Budget Stabilization Fund, sometimes called the “Rainy Day Fund.” Deficits that exceed 1.5 percent of the General Revenue appropriation require a special session of the Florida Legislature for resolution. A special session of the Legislature *may* be called to deal with any deficit, but is required when the deficit exceeds 1.5 percent of appropriations.

A deficit occurs when the official estimate of funds available in the General Revenue Fund falls below the total amount appropriated from that fund during that fiscal year. The Governor must certify that a deficit will occur and then has 30 days to develop and submit a plan to eliminate the deficit to the Joint Legislative Budget Commission and the Legislature. The Florida Statutes require that all branches and agencies of government receiving

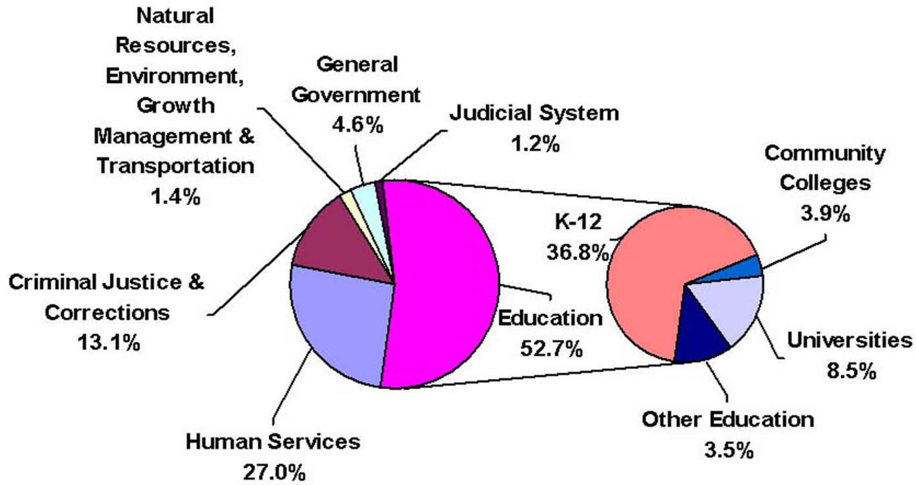

Figure 1. Operating funds from general revenue for fiscal year 2001-2002.

General Revenue must participate in deficit reduction efforts and that, generally speaking, the reductions must be applied uniformly. Chapter 216.221(5)(b) of the Florida Statutes provides guidelines for developing budget reduction plans. Chief among the guidelines is preservation of legislative policy and intent as expressed in the General Appropriations Act.

Deficits can be resolved by one of the following actions:

1. Funds from the Budget Stabilization Fund may be transferred to the General Revenue Fund.

2. Current appropriations may be reduced (following the guidelines set forth in Chapter 216(5)(b), Florida Statutes (as noted above).

3. Excess cash balances in trust funds may be transferred to the General Revenue fund.

4. Some combination of the above three options may be used.

5. If the deficit resolution involves a special legislative session, the Legislature may take the actions noted above or may increase revenues through the enactment of tax or fee increases. The Legislature may also choose to eliminate some state programs and/or reallocate spending across programs in an effort to resolve differences between state revenues and expenditures.

The Current General Revenue Picture

Clearly, reductions in state revenues or the introduction of programs that require significant increases in state spending have implications for all programs that are funded from General Revenue appropriations. As noted, these include state agencies as well as municipal and county governments and local school districts. At this point (December 2002), although some concerns have been raised, there is no indication that revenue shortfalls will occur within this fiscal year. Based on recent information from the Florida Department of Revenue, state sales tax receipts are running less than estimated, but collections from virtually all other general revenue sources are above the projected amounts (Florida Department of Revenue, 2000). Further, the state is reporting adequate monies in reserve funds to cover potential problems in the short run (Pendleton, 2002)

With regard to the current fiscal year Florida is faring better than many other states. A recent report by the National Governors Association indicates that 23 states had plans to reduce budgets below the amount enacted for the 2002 fiscal year (National Governors Association, 2002). The report notes that many states are experiencing revenue declines in the face of increasing costs for state programs, particularly expenditures related to health care. A

Wall Street Journal article notes that the effects of the current recession on state budgets is the worst since 1983, partly because states are now responsible for funding a larger portion of education and social service costs than in the earlier period (Gold and Gavin, 2002).

Florida, although currently in better fiscal shape, is not immune to the general set of pressures affecting other states. Serious concerns are being raised over the prospects for state revenues in the coming fiscal year and the challenge that will be faced by the Legislature in the 2003 session as they attempt to balance the state budget for 2003-2004. An article in the October 2002 *Florida Trend* details expected increases in costs of state programs and expected decreases in state revenues (Klas, 2002a).

According to the *Florida Trend* article, Florida faces revenue losses, resulting from changes in the Federal Estate Tax and in the Federal Corporate Income Tax, of approximately $490 million in the 2003-2004 fiscal year. In both cases Florida tax collections are geared to tax policy at the Federal level. Further, Florida will experience the loss of additional revenues from changes in its Intangibles Tax (approximately $140 million in 2003-2004), and increasingly, the state is expected to lose revenue because it cannot collect sales taxes on Internet transactions. On the cost side, Florida faces increased costs for Medicaid ($400 million), increased costs due to new student enrollments in public schools ($300 million), and the requirement of a previous constitutional amendment (1998) that the state assume the costs of operating the court system (more than $700 million).

Most important, the costs of the state programs cited in the previous paragraph do not include the fiscal implications of recently passed constitutional amendments. Voters in the November 2002 general election passed constitutional amendments requiring Florida to reduce class sizes in public schools and to provide pre-kindergarten programs to all four-year-olds in the state. Further, a previously passed constitutional amendment (2000) requires the state to begin construction in 2003 on a high-speed rail link between Miami and Tampa. A separate article in the October 2002 *Florida Trend* provided cost estimates on some of the amendments that were recently passed (Klas, 2002b). It is estimated that the amendment requiring pre-kindergarten programs will cost between $300 and $400 million per year, and that the class-size-reduction amendment could cost as much as $29 billion over the next eight years. At this point, no estimate is available on the cost of the high-speed rail link, and all estimates of costs associated with the other amendments are uncertain and depend on legislative decisions.

Where does this leave the state at this point? The most recent estimates of state revenues (November 2002) provide the best insight available (Office of Economic and Demographic Research, 2002). As noted earlier, Florida appears to have sufficient funds to cover budgeted expenditures for the current fiscal year (2002-2003). Increases in funds from the corporate income tax and the documentary stamp tax are more than offsetting the sales tax collections that are running behind predicted amounts. In fact, the state is projected to end the fiscal year with a surplus of $159 million.

As for the 2003-2004 fiscal year, the revenue picture for Florida is still positive. The state is expected to have $802 million more in revenue than the amount available in the current fiscal year. This amount, however, is insufficient to cover the increased costs associated with Medicaid, school enrollments, and the state court system. In short, the next session of the Legislature will face a real challenge in finding sufficient revenues to cover the costs of existing state programs, and this challenge is further complicated by the potential costs of recently passed constitutional amendments. Unless Florida's economy recovers more quickly that expected, the Legislature may face the unpopular choice of increased taxes or reductions in spending on state programs.

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Table 1. Operating funds from general revenue for fiscal year 2002-2003.

Program Area	Million Dollars	Percent of Total
Public Education K-12	$7,531.4	36.8%
Community Colleges	$800.8	3.9%
State Universities	$1,748.0	8.5%
Other Education	$710.0	3.5%
Total Education	$10,790.7	52.7%
Human Services	$5,534.3	27.0%
Criminal Justice and Corrections	$2,674.4	13.1%
Natural Resources, Environment, Growth Management, and Transportation	$294.4	1.4%
General Government	$947.8	4.6%
Judicial System	$247.9	1.2%
Total General Revenue Appropriations	$20,489.5	

Source: 2002 General Appropriations Act