



# **PRIMER ON THE FLORIDA STATE BUDGET AND TAX SYSTEM**

*June 2010*

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# Executive Summary

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The state budget affects Florida's 18 million people every day, even though most don't often think about it. The budget is a blueprint that maps out how much money we spend for state programs and services. By understanding the budget and what it funds, Floridians can participate in the allocation of resources to the state's top priorities and make a difference in the kind of state we're building and what it will be in the future.

This Budget and Tax Primer is intended to help Florida residents better understand the nature of Florida's budget and tax system. It describes the state budget and discusses the taxes that make state spending possible. It answers basic questions: How much money are we spending? Where does it come from? Where does it go? How has it changed over time? How do we compare with other states?

**Section I** describes what the Florida state budget is and how it is constructed and funded. Particular attention is given to the actions of the key participants in the process: the Governor and state agencies, the Florida House of Representatives, and the Florida Senate. The contributions of legislative and executive branch principals in the consensus estimating forecasts that define revenue availability and programmatic needs are included. In addition, the participation of lobbyists (representatives of businesses, organizations, and associations that represent their clients' interests), citizens and advocates is noted. All these participants play an important part in the final outcome of producing a budget to serve the needs of the state. The section concludes with a look at how the state budget has changed over the last ten years.

**Section II** discusses how the Florida state budget is funded; types of revenues (General Revenues and Trust Funds), sources of these revenue types (taxes, fees, federal funds) and how these revenues are allocated in the budget process. Particular attention is given to providing an understanding of the specific taxes that are the major sources of the state's general revenue and how they have changed over time.

The last section (**Section III**) provides information about how Florida's state budget and the programs and services it funds have changed over time; what has historically driven Florida's budget needs; and comparisons with other states. Particular attention is given to the declining revenues to fund state needs.

A budget should reflect the needs, aspirations and will of a people, and so it is with Florida's state budget. How well the budget meets those needs and aspirations is up to Floridians to decide. It is the hope of the Florida Center for Fiscal and Economic Policy that this **Primer** will aid them in that determination.

# Introduction

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***The state budget is a blueprint that helps determine what kind of state we're building. What's in it affects our lives every day.***

**E**ach spring the Florida Legislature enacts an annual state budget. It is a spending plan of several hundred pages containing thousands of details about how state government should spend the revenue appropriated for the next "fiscal year," which runs from July 1 of each year through June 30 of the next year.

For a small minority of Floridians, the process is familiar. Each year they pay close attention to the steps in the budget process: the budget requests by government agencies, the proposed budget submitted by the governor, committee meetings where legislators determine spending levels for thousands of state government functions, and the governor's final approval or disapproval of specific spending items. These Floridians work within the process as employees of state agencies and associations, as paid lobbyists for a variety of organizations and businesses, or as advocates for nonprofit agencies.

The amount of money available, where it comes from and where it's spent affect everyone in Florida every day, but the average person has little understanding of how it affects them. Little information is available to Florida residents who want to influence the budget and tax process. The state budget adopted by the legislature funds public schools, community college, universities, health care for the poor, and services for seniors and people with disabilities. It pays for roads, bridges, parks, beaches, environmental protection, and the law enforcement officers, judicial system and prisons needed to keep Floridians safe. The budget helps determine how much Florida residents, business owners, and tourists pay in taxes.

This Budget and Tax Primer is intended to help Floridians understand the nature of the state's budget and tax system. It describes the budget, the taxes that generate the revenue to make state spending possible and how individuals can influence the decisions made in the process. The state budget and tax system are statements of the priorities and values of those who shape the budget. It answers basic questions: How much money are we spending? Where does it come from? Where does it go? How has it changed over time? How do we compare with other states? How can the process be influenced?

At times, technical terms are used in this Primer to describe specific actions, items, or events. A Glossary is provided at the end of the Primer to aid in the readers' understanding.

# Section I: The Florida Budget

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## What is the "State Budget"?

*The budget spells out how state government will spend money from all sources of revenue: taxes, fees, federal funds, the lottery and gambling.*

**T**he state budget is the annual spending plan adopted by the legislature that accounts for **ALL** money that comes into the state treasury – from state taxes, fees, payments from the federal government, and lottery and gambling proceeds.

The state budget can be categorized into six broad categories: (1) Human Services; (2) Education; (3) Criminal Justice and Corrections; (4) Natural Resources, Environment, Growth Management and Transportation; (5) the Judicial Branch; and (6) General Government.

**Human Services, Education and Criminal Justice and Corrections** receive large amounts of general revenue (i.e., revenue from taxes). Programs and services carried out by state government in **Natural Resources, Environment, Growth Management and Transportation** are heavily funded by federal funds and state **trust funds**. The **Judicial Branch** and **General Government** categories are the smallest in the budget and are funded from a mix of sources.<sup>1</sup> A discussion of these revenue sources will be presented later in this Primer.

Two primary sources fund the state budget: **general revenue**, which is money from general taxes (such as the sales tax) not required by law to be spent for specific services, and **trust funds**, which is money from both state and federal sources dedicated by law to a specific service, such as transportation.

Services we depend on every day are funded by a combination of federal, state and local resources. Sometimes, therefore, it's difficult for citizens to understand where responsibility lies for a particular program or service. For example, Medicaid funding is shared by the federal, state and local governments (as opposed to Medicare, which is totally funded and administered by the federal government.) Federal funds provide a large share of the money for

- *The Governor's Annual Budget, Along With Highlights, Reports, Analysis, and Narratives, Can Be Viewed at the Following Link:*  
<http://www.ebudget.state.fl.us/>
- *Senate Appropriations and Budget Documents Can Be Viewed at the Following Link:*  
<http://www.flsenate.gov>
- *House Appropriations and Budget Documents Can Be Viewed at the Following Link:*  
<http://www.myfloridahouse.gov/>

interstate highways, while state governments build and maintain state roads and local governments fund and maintain most local streets.

Funding for K-12 education is a state responsibility, according to the Florida Constitution, but public school funding includes local property taxes and some federal funds as well. Many human services programs, such as children’s healthcare and aid to Floridians with disabilities, are funded by federal and state governments, but local governments also provide some money for human services. This “Primer” focuses on how state government raises and spends the revenue it obtains.

To implement the state budget, the legislature passes and the governor signs the General Appropriations Act (GAA). The GAA contains thousands of line items detailing expenditures by categories such as salaries and benefits, expenses, capital outlay (building construction, etc.), and contracted services. In addition, clarification about how money is to be spent is provided in **proviso language** written by the Legislature to clearly qualify legislative intent about the manner in which dollars should be spent in a specific line item.

## How the State Budget Is Made

*The annual Florida budget is created over many months, in response to a formal process outlined in law.*

**State Budget Process Time Table**

Governor/ Office of Policy and Budget and the Legislature	State Agencies	Governor/ Office of Policy and Budget	Legislature	Governor/ Office of Policy and Budget
<ul style="list-style-type: none"> <li>• Provide Instructions to Departments for:               <ul style="list-style-type: none"> <li>○ Long-Range Program Plan</li> <li>○ Legislative Budget Request</li> <li>○ Capital Improvements Program Plan</li> <li>○ Information Technology Plan</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Prepare Long-Range Program Plan</li> <li>• Prepare Legislative Budget Request</li> <li>• Prepare Capital Improvements Program Plan</li> <li>• Prepare Information Technology Plan</li> <li>• Prepare Internal Operating Budget</li> </ul>	<ul style="list-style-type: none"> <li>• Review/Analyze:               <ul style="list-style-type: none"> <li>○ Long-Range Program Plans</li> <li>○ Legislative Budget Requests</li> <li>○ Capital Improvements Program Plans</li> <li>○ Information Technology Plans</li> </ul> </li> <li>• Hold Public Hearing</li> <li>• Develop Recommendations Based on Governor’s Priorities and Available Revenues</li> </ul>	<ul style="list-style-type: none"> <li>• Prepare Appropriations Act</li> <li>• Review Governor’s Recommendations</li> <li>• Review/Analyze/Revise Budget</li> <li>• Appropriations Act Passed by Both Houses</li> </ul>	<ul style="list-style-type: none"> <li>• Governor may Line Item Veto Specific Appropriations</li> <li>• Governor Signs Budget into Law</li> <li>• Create Agency Operating Budgets from General Appropriations Act</li> </ul>
May - July	May - October	September - January	January - May	May - July

**T**he Florida State Budget is developed over a 12-month period. The chart above shows the various processes and timeline that take place in the developing the budget.<sup>2</sup>

The budget receives the most attention during the final weeks of the annual 60-day legislative session. But the process of creating the budget begins much earlier. In July, acting on instructions issued jointly by the governor and legislature, state agencies begin developing budget requests that lay out the funding needed to meet their missions. By mid-October, these agency budget requests – which should reflect their independent assessments of “actual needs” (although some would argue that not all needs are addressed) separate from the governor’s assessment – are submitted to the governor.

In developing the budget, the governor and legislature follow basic legal requirements laid down in the Florida Constitution and state law. For example, the state budget must be balanced, which means that the state has to take in enough revenues each year to cover the cost of programs it decides to fund. However, there are additional requirements that must be met when the budget is adopted. These include the constitutional provision limiting the amount of **recurring costs** (those due every year) that can be funded with **nonrecurring revenue**,<sup>3</sup> such as a one-time savings or surplus that may not be there the next year. In addition, the legislature is required to set aside a rainy-day or emergency fund (called the Budget Stabilization Fund) containing at least five percent of the previous year’s general revenue.

The governor considers the agency requests and his priorities and proposes a balanced budget, along with his recommendations for any needed additional revenue. Thirty days before the start of the legislative session in early March, the governor submits his budget recommendations to the legislature. Legislative committees then begin public meetings to consider the budget, inviting testimony from agency leaders and interested citizens. On opening day of the legislative session, the governor addresses the House and Senate jointly, providing a “State of the State” message that highlights his budget proposals.

## **Senate and House Develop Separate Budgets**

Each chamber of the legislature develops its own budget within its own committee structure. The president of the Senate and speaker of the House give allocations to each of the appropriations committees, specifying how much funding their part of the budget has to accomplish its task..

In the Senate, overall jurisdiction is exercised by the Policy and Steering Committee on Ways and Means. Under it are six committees that consider parts of the budget:

- Criminal and Civil Justice Appropriations;
- Education Pre-K – 12 Appropriations;
- Higher Education Appropriations;

- Health and Human Services Appropriations;
- General Government Appropriations; and
- Transportation and Economic Development Appropriations.

The House is organized differently. Its committee structure is headed by the Full Appropriations Council on Education and Economic Development that oversees the following appropriations committees:

- Pre-K – 12 Appropriations;
- State Universities and Private Colleges Appropriations;
- Transportation and Economic Development Appropriations;
- Criminal and Civil Justice Appropriations;
- Governmental Operations Appropriations;
- Health Care Appropriations;
- Natural Resources Appropriations.

During the session, the legislature holds open workshops, meetings, and public hearings to consider the governor’s recommendations and agency requests and to debate the members’ priorities. Agency heads often testify about their budget needs. Outside experts and lobbyists may be invited to offer input. Generally, interested citizens also are allowed to testify.

Development of the budget normally requires most of the 60 days of the legislative session. The House and Senate each produce their appropriations bills, reflecting the allocations determined by their presiding officers as well as any new bills increasing or cutting revenues from taxes or fees.

Before the state budget is final, the House and Senate must pass the same exact version. In “conference” meetings (of members from each house) required by law to be open to the public, they reach an agreement that often includes a combination from both the House and Senate plans. The final “Conference Committee Report” must be available to legislators and the public for at least 72 hours before it can be voted on by the House and Senate.

After passage by both chambers, the bill is sent to the governor. He or she may sign it, veto it, or use the “line-item” veto power to reject specific spending items.<sup>4</sup> A veto may be overridden by a two-thirds vote of both the Senate and House.

Upon the governor’s signature, the “state budget” – called the General Appropriations Act – becomes law and is the “roadmap” for state operations during the next fiscal year. (Note: the state budget is the only bill that is required in the Constitution to pass each year.)



## *Official Forecasts Support Budget Development*

*The governor, Senate, and House use consensus forecasts of revenues and budget needs to guide budget development.*

Underlying the development of the budget is a series of official forecasts of both revenues and budget requirements related to the demands for some state programs and services (expected numbers of public school students, Medicaid recipients, and prisoners, for example) under current policy and law.

These forecasts – reached by consensus among representatives of the Governor’s office, Senate, House of Representatives, and the Legislative Office of Economic and Demographic Research (lead principal in the estimating conference process) – provide the official numbers to be used in all planning and budget actions of the state.<sup>5</sup> This is an important step in the budget development process; policymakers may differ on issues (such as per-pupil funding for public schools), but not on the official numbers (total pupil enrollment projection), since they have been agreed to by consensus.

Revenue estimating conferences normally occur in late autumn, to establish a forecast for the governor’s budget proposal, and in the spring, to determine the total available to be appropriated during the legislative session.

The estimating conferences provide the first indications of what to expect for the upcoming budget. Will the state have more or less money in the next year than in the current year? Is revenue rising or falling? Are the numbers of those eligible for state-funded services growing or declining? Is the revenue adequate to meet the demand for services under existing laws and eligibility rules? If not, the state faces a budget gap, and the governor and legislature must make choices that usually involve some combination of the following:

- change programs and services in ways that reduce spending; or
- raise additional revenues (taxes and/or fees).

Consensus estimates also are used by the Legislative Budget Commission and legislative staff to develop the Long-Range Financial Outlook, required in 2006 by constitutional amendment. The financial outlook, issued by September 15 each year, projects revenues and costs for three years to “both avoid future budget problems and maintain more financial stability between state fiscal years.”

In the Long-Range Financial Outlook, the legislature classifies anticipated expenditures under existing law as either:

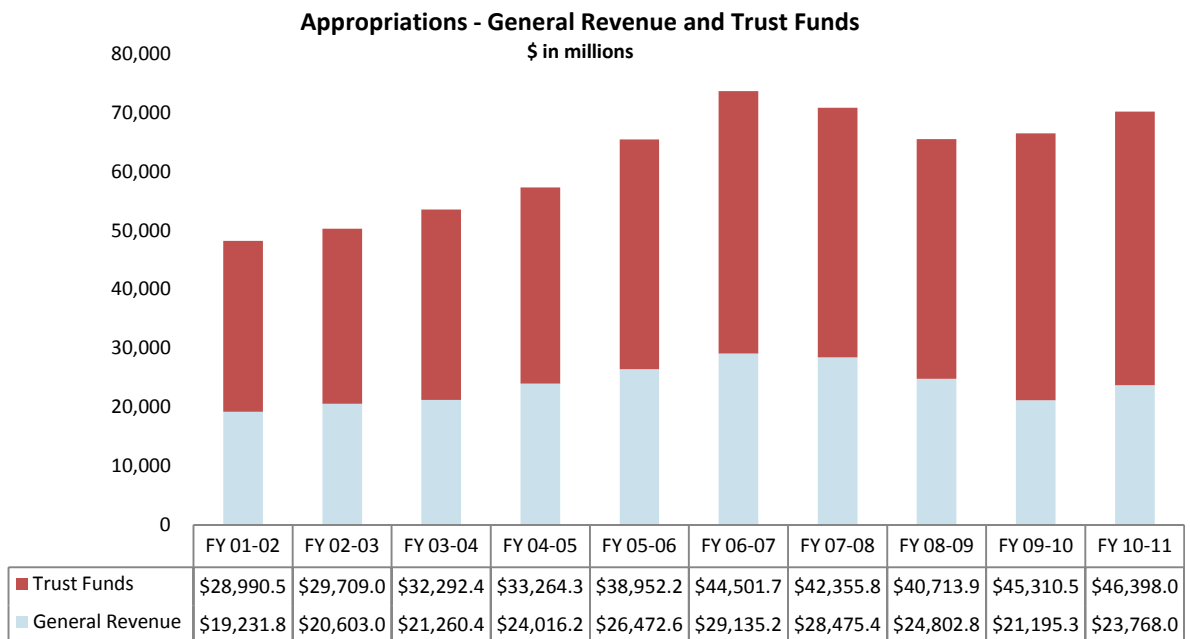
- **“Critical Needs”** (the minimum the state must do, including paying for current year activities, mandatory increases based on estimating conferences and other essential needs); or
- **“Other High Priority Needs”** (historically funded issues).

Critical needs and high-priority needs together form what the Long-Range Financial Outlook calls “a highly conservative continuation budget,”<sup>6</sup> although the final budget is not required to pay for all those needs. This analysis is of great importance in that it gives the governor and the legislature a base from which to develop the budget.

## How Has the State Budget Changed Over Time?

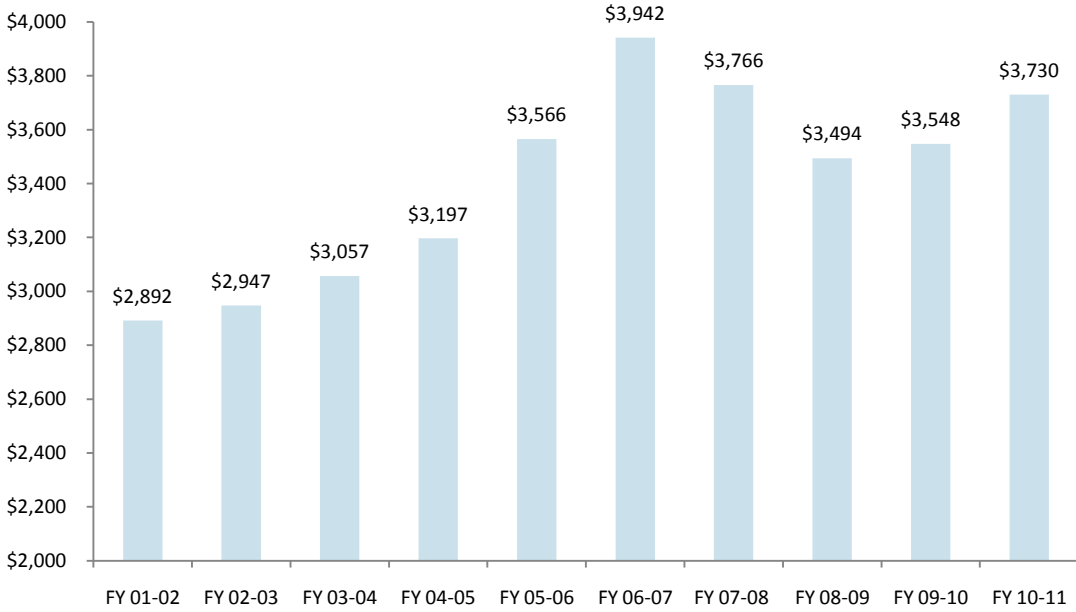
*Florida’s state budget has risen along with population and inflation until the “Great Recession” of 2008.*

Florida’s state budget has changed dramatically over the last few years. From \$49.2 billion in FY2001-02, the budget rose to \$73.6 billion in FY2006-07, declined during the “Great Recession” years, and began a slow rise to \$70.2 billion for FY2010-11.<sup>7</sup>



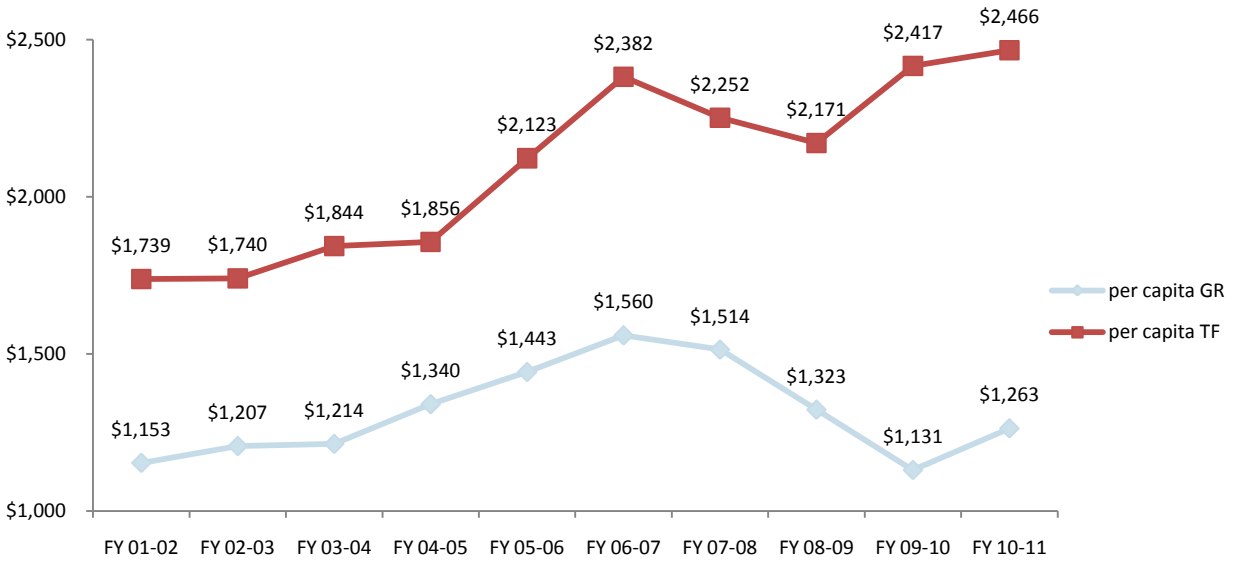
Another useful way to understand a state's budget is to compare total spending per resident over the last 10 years. Florida spent a high of \$3,942 per person in FY2006-07, a low of \$2,892 in FY2001-01, and \$3,730 for FY2010-11. (However, if the temporary federal stimulus money were not available, Florida’s spending per person would have been approximately \$100 less.)

**Total Per Capita Appropriation**  
nominal \$



Source: FCFEP from FL. legislative data

**Per Capita Appropriations by Fund Type**  
nominal \$



Source: FCFEP from FL. Legislative data

# *How Can Individuals Influence State Budget and Tax Policy Decisions?*

*Floridians have opportunities to influence policy in a variety of ways.*

Information necessary for a sufficient understanding about the general process followed in the development and enactment of the state budget and tax policy is provided in Sections I and II of the Primer. Principal participants, timeframes guiding the process, substantive information relevant to understanding budget and tax policy in Florida, trends along with national comparisons, and other important facts needed for citizen understanding are discussed. How individual citizens can influence state budget and tax policy decisions can seem like a daunting objective, but several suggestions are offered below.

1. The most important consideration is to vote. Elect politicians who represent your interests and pledge to support policies you want enacted including budget priorities. Also, it is helpful to be involved in the campaign of your local elected officials. Monetary contributions are significant but personal involvement in the array of volunteer activities associated with a campaign lead to future access and influence if your candidate is elected.
2. Get to know your legislator, legislative committee staff and staff representing the governor if possible. Meet with them in person if possible. Let them know what is needed in your community and how important it is, noting especially the fiscal implications from not addressing those needs, such as public health problems, crime, educational underachievement, environmental problems, constraints to viable business interests, etc. Follow-up all such meetings with a personal note or email reminding them of the importance of the issue to you and thanking them for their support.
3. Attend legislative “district meetings.” Each fall, legislators, sometimes in conjunction with other elected officials, schedule public meetings to hear from their constituents. Attend these meetings and let them know what is important to you.
4. Join and participate in local and statewide associations that advocate for your interests, including civic organizations such as the League of Women Voters.
5. If possible, meet with your legislative delegation and staff early in the legislative session to remind them of your community’s needs and ask for their support.

## ***Useful Links:***

*Florida House and Senate Delegations by County:*

[http://www.flsenate.gov/data/legislators/local\\_delegations.pdf](http://www.flsenate.gov/data/legislators/local_delegations.pdf)

*League of Women Voters of Florida:*

<http://www.lwvfla.org/>

*Clearinghouse on Human Services:*

<http://iml.jou.ufl.edu/projects/Spring01/Benjamin/>

*Fund Education Now:*

<http://www.fundeducationnow.org/>

*Children's Campaign:*

<http://www.iamforkids.org/>

*AARP Florida:*

<http://www.aarp.org/states/fl/>

*Florida Alliance for Retired Americans:*

<http://www.flara.org/>

*Florida Arc:*

<http://arcflorida.org>

## Section II: Revenue in the State Budget

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### What are the Sources of Revenue?

*Federal money accounts for a large portion of the state budget, although state taxes and fees make up the majority of total revenue.*

The money in the state budget comes from a variety of sources: state taxes, fees, the lottery and gaming, and federal funds. Federal funds provide a large share, but state sources make up the majority of all money appropriated by the legislature.

People and businesses in Florida pay a variety of **state taxes and fees** (separate from those collected and used by other levels of government, such as the federal income tax or the local property tax.) The state sources of revenue include such items as fees for automobile licenses and titles, driver's licenses, hunting and fishing licenses, and taxes on utilities. The total budget also includes proceeds from the lottery and pari-mutuel licenses.

Revenues from most state taxes, such as the sales tax, are general revenue (or "GR" as it's commonly called). General revenue provides the basic state support for education, corrections, courts, general government operations, and health and human services also partially paid for by the federal government. General revenue is used to meet match requirements for certain federally funded programs, such as Medicaid.

Many revenue sources are allocated solely to **trust funds** – accounts earmarked for specific purposes such as transportation, highway safety, or school construction. A variety of fees, charges and federal funds designated for a specific purpose are deposited into 193 separate trust funds,<sup>8</sup> making up the balance of potential funding sources of the state budget. However, the revenues annually allocated to trust funds may not be appropriated in total in any one year. Periodically, and especially when there is a general revenue shortfall, the legislature may "sweep" unencumbered trust fund balances to general revenue for use.

In FY2010-11, the largest trust fund was the Medical Care Trust Fund, totaling \$12.1 billion (the major portion being federal funds) for Medicaid. The State Transportation Trust Fund – consisting of money from state fuel taxes, motor vehicle fees, and federal grants – was the second-largest, appropriating almost \$5.7 billion for highway and bridge construction and maintenance.

## Where Does General Revenue Come From?

**The sales tax provides three-fourths of general revenue and a variety of other taxes and fees the remainder. Total GR declined during the recession.**

Florida's recurring general revenue fund of \$22.4 billion for FY2010-11 relies heavily on the sales tax. For that year, the sales tax receipts are estimated to be \$16.8 billion, 75 percent of total general revenue. Florida relies on the sales tax for such a large share of its revenue in part because it is one of only nine states without a personal income tax. The remainder of the \$5.6 billion of general revenue for FY 2010-11 comes from a variety of sources. The following table shows the sources of General Revenue and how they have changed over the past five years.

**Source of Recurring General Revenues FY2007 – FY2011**  
(dollars in millions)

Revenue Source	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10 (est.)	FY 2010-11 (est.)	% Chg FY 2006-07 FY 2010-11
Sales Tax	\$19,435.2	\$18,470.5	\$16,532.2	\$15,976.7	\$16,789.2	-13.6%
Corporate Income Tax	2,443.7	2,218.5	1,740.7	1,731.8	1,882.3	-23.0%
Documentary Stamp Tax	625.5	197.2	131.4	142.2	169.1	-73.0%
Beverage Tax & Licenses	637.5	601.1	582.1	580.6	584.9	-8.3%
Intangibles Tax	772.6	436.3	200.0	173.6	193.0	-75.0%
Insurance Premium Tax	697.4	672.1	614.7	609.5	591.2	-15.2%
Service Charges	440.5	363.2	308.6	463.0	482.6	+9.6%
Tobacco Taxes	279.2	281.3	283.7	204.7	217.0	-22.2%
Interest Earnings	473.1	446.6	126.8	104.6	114.9	-75.7%
Corporation Filing Fees	196.2	220.1	239.9	231.0	231.6	+18.0%
Other Taxes & Fees	770.1	696.1	789.2	1,596.4	1,618.3	+210.1%
Less Refunds	-366.9	-465.8	-598.2	-566.5	-433.1	n/a
<b>Total Recurring GR</b>	<b>\$26,404.1</b>	<b>\$24,137.2</b>	<b>\$20,951.2</b>	<b>\$21,247.6</b>	<b>\$22,441.0</b>	<b>-15.0%</b>

Source: The Florida Legislature Office of Economic and Demographic Research.

### General revenue sources:

- 1) **Sales and use tax** – Florida charges a tax of six percent on retail sales of most goods and some services purchased or used in Florida. Florida law also requires the collection of a **use tax** – a tax at the same rate as the sales tax, applied to the use of goods (such as those bought from out-of-state companies) on which sales tax has not been paid.

Broad-based sales taxes were first adopted by states in the Great Depression era, when property tax collections dropped substantially.<sup>9</sup> Today 45 states impose a sales tax (five states

impose no sales tax), and the rates range from 2.9 percent (Colorado) to 8.25 percent (California).<sup>10</sup> States differ also in how they apply their sales taxes and which goods and services are exempted. Florida adopted its sales tax in 1949 and began relying on it heavily for the state budget.

From the beginning, Florida's sales tax exempted some purchases by law – so-called necessities of life – from the sales tax. Groceries bought for human consumption, prescription drugs and some other medications, eyeglasses, rent on low-income housing, and power and heating fuels used by residential households were exempted from the beginning and remain untaxed. These exemptions and others come with a cost to the state treasury: Not collecting taxes on groceries costs the state more than \$2.5 billion each year, and exempting prescription drugs and other medications more than \$1 billion.<sup>11</sup> Other exemptions include Bottled Water (\$42.3 million in lost sales tax revenues) and Professional Sports Teams subsidies (\$21 million in lost sales tax revenues).<sup>12</sup>

The Florida Legislature has changed the state's sales tax almost every year since 1949 – raising the rate, exempting items, or adding new items. The rate was increased to six percent in 1988. That hike followed the repeal in 1987 of a law that had extended the sales tax to all services and to 44 other items that had been exempt. This was the short-lived **services tax** that continues to draw debate in Florida and nationally. (For more about taxing services, see "Expanding Sales Taxation of Services: Options and Issues," Center on Budget and Policy Priorities, [www.cbpp.org/cms/index.cfm?fa=view&id=2888](http://www.cbpp.org/cms/index.cfm?fa=view&id=2888).)

In addition, the legislature since 1998 has frequently adopted sales tax-free periods on purchases of items like clothing and school supplies (at a cost of about \$35 million in reduced sales tax revenues), to coincide with the beginning of the school year.

- 2) **Corporate income tax** – Forty-five states levy a corporate income tax. Florida enacted its tax by constitutional amendment in 1971, imposing a five percent tax on net income (profits) of certain corporations. As with the sales tax, the legislature has enacted numerous tax breaks (exemptions and exclusions) to the corporate income tax. The tax rate is a flat 5.5 percent, slightly below the national average. Corporate income tax collections for the general revenue fund have declined during the recession, from a high of \$2.4 billion in FY2006-07 to \$1.7 billion in FY2009-10. However, revenues are projected to rise to \$1.9 billion in FY2010-11. The corporate income tax provides about eight percent of the general revenue budget.<sup>13</sup>
- 3) **Documentary stamp tax** – This tax on real estate deeds and certain financial instruments has existed in Florida since 1931. It had been a substantial source of revenue during Florida's real estate boom, producing \$1.6 billion for the general revenue fund in FY2004-05. But the bust has reduced the amount generated in general revenue to less than \$170 million in FY2010-11.



The “doc stamp” tax has two parts. The tax on deeds and other real estate documents is imposed at the rate of 70 cents per each \$100 of value. A charge of 35 cents per \$100 is levied on certificates of indebtedness, promissory notes, wage assignments, and retail charge account agreements.

- 4) **Insurance premium tax** – The state levies a tax on insurance premiums, paid by insurance companies that will generate almost \$600 million in general revenue in FY2010-11.

A 1988 law substantially changed existing insurance requirements in Florida and subjected all insurance companies, regardless of where they were headquartered, to a two percent premium tax. Insurance laws and taxation have been changed many times since then, sometimes in response to the fallout from hurricanes. Today, the tax on premiums ranges from one percent to 1.75 percent, depending on the type of insurance policy.

- 5) **Beverage tax** – Since 1933, Florida has imposed a tax on alcoholic beverages. The tax paid by the distributor or manufacturer of alcoholic beverages is estimated to produce \$584 million in FY2010-11. The tax is 48 cents per gallon of beer, \$2.25 to \$3.50 per gallon of wine and \$2.25 to \$9.53 per gallon of spirits, with the exact rate depending on alcohol content of the beverage.
- 6) **Tobacco tax** – First adopted in 1943 in Florida at three cents a pack, the tobacco tax was increased gradually until it reached 33.9 cents a pack in 1990. There it remained until the legislature passed a surcharge of \$1 per pack of cigarettes in 2009. That legislation also increased the tax on tobacco other than cigarettes and cigars by an amount equal to 60 percent of the wholesale sales price, in addition to the previous tax of 25 percent of the wholesale price.

Revenue from the additional surcharge adopted in 2009 will not be available for general revenue spending because the legislature dedicated that money to a trust fund for health care.<sup>14</sup>

However, the revenue from the pre-increase 33.9-cent tax will continue to be deposited into the general revenue fund. It is expected to raise more than \$200 million in general revenue in FY2010-11.

- 7) **Corporation fees** – All corporations doing business in Florida are required to file annual reports and to pay fees for the privilege of operating in the state. Major fees are the annual report fee, corporate filing fee, and a supplemental corporate fee.

Florida began charging some corporate fees in 1943 and the legislature has since changed the fees and the documents on which fees are charged. Fees vary according to the document.

- 8) **Intangibles tax** – The state imposes a two-mill one-time tax on new mortgages. (A mill is \$1 per \$1,000 of value.) In the past, Florida also imposed the intangibles tax on other items, such as stocks and bonds. This “annual” tax was repealed in total after 2006.

The tax on intangible personal property, such as mortgages, stocks and bonds, is one of only two “**wealth taxes**” that have been used in Florida (the other being the estate tax, now phased out by Congress). Wealth taxes specifically target the accumulated assets of the wealthy, rather than people’s spending or earnings. The tax now yields less than \$200 million in general revenue annually, compared to more than \$1 billion five years ago.

- 9) **Interest earnings** – The state invests money not used for day-to-day expenses and earns interest. Because the state has spent down its reserves and interest rates have declined, interest earnings will only total about \$117 million in FY2010-11, down from more than \$400 million in FY2006-07.
- 10) **Other taxes, fees and service charges** – The remainder of general revenue budget is generated by a variety of smaller taxes (severance tax, pari-mutuels tax, etc.), fees (court fees, hospital fees, etc.) and service charges imposed on trust funds

## *Potential Sources of Additional General Revenue*

*Florida’s tax system excludes billions of dollars in potential revenue.*

Florida’s tax system exempts more potential sources of general revenue than it taxes. In FY2010 it is estimated that more than \$30 billion of tax revenue that could be used for critical state purposes is not taxed. These “tax expenditures” (exemptions, deductions, exclusions, subsidies, credits, preferential tax rates, and other similar special treatments to income, transactions and services) once enacted in law rarely if ever are reviewed or repealed (unlike specific appropriations in the budget which only last for one year). A detailed listing of these tax expenditures (tax preferences) can be found in the **2010 Florida Tax Handbook**.

([http://edr.state.fl.us/taxhandbooks/taxhandbook2010\\_2.pdf](http://edr.state.fl.us/taxhandbooks/taxhandbook2010_2.pdf))

For a more information on potential additional revenue, see the Center’s report entitled “[\*A Balanced Approach to Building a Budget That Meets Floridians’ Needs in a Crisis\*](#),” March 2010.

## Section III: Challenges Facing Florida

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### How Change Affects Florida's Growth and Economy

*For the first time since World War II, the state can't rely on rapid population growth and building to fuel economic gains and tax revenue.*

**B**udget and tax deliberations in Florida now take place against the backdrop of a major change in the state's growth.

The Florida we have known since World War II has been characterized by a seemingly "endless stream" of new residents and visitors.<sup>15</sup> The state grew from the 27<sup>th</sup>-largest state in 1940, with fewer than two million people, to the fourth-largest today, with almost 19 million. The new Floridians resulted much less from the natural birth rate than from migration from other states and nations. Today, only one-third of Florida residents were born in the state.<sup>16</sup>

Year after year, new residents came in droves. The state's population grew by at least 153,000 people each year between 1950 and 2007 – and by as many as 400,000 for several years in the mid 2000's,<sup>17</sup> or higher than 2.5 percent annually in some years. **But during the recession, for the first time in 60 years, Florida stopped growing.** State economists estimated that Florida's population on April 1, 2009, was the same as a year earlier. They expect population to remain relatively flat until 2012 and then to grow at less than half the rate we've been accustomed to over the next two decades.<sup>18</sup>

This historic change has deep implications for Florida's economy and state budget. One economist concludes:

*"The old model for economic growth was predicated on strong population growth. Gaudy rates of population growth will no longer be part for the course in Florida, and thus the model for economic development must evolve, as must the tax structure. Growing the economy will no longer be cheap; it will require significant investment by government into Florida's infrastructure, and into its labor force (via research and education)."*<sup>19</sup>

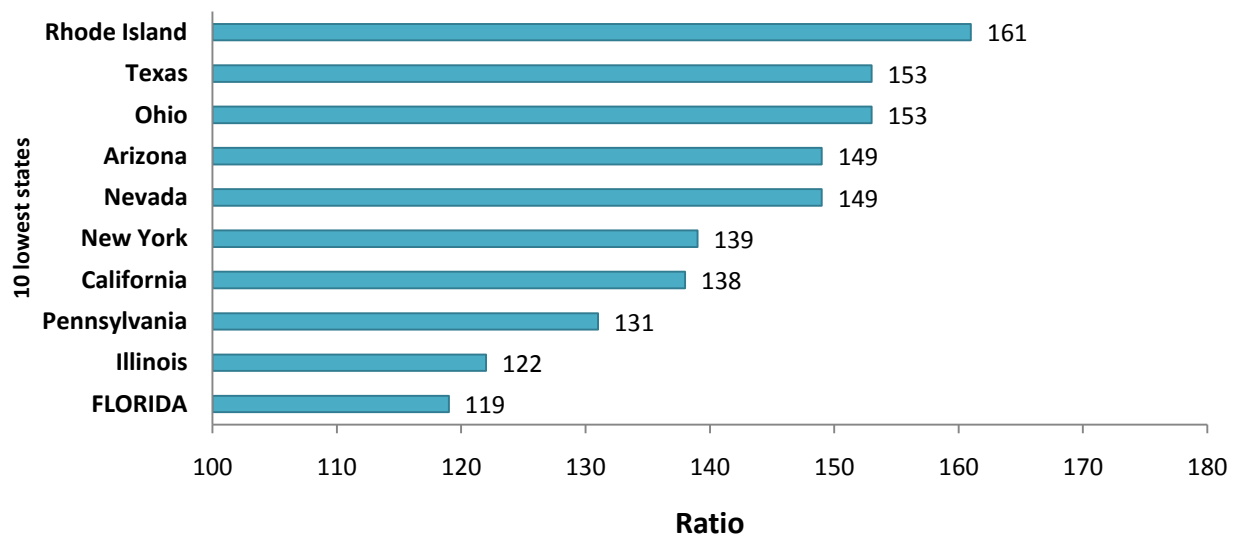
## How Do Florida's Spending Priorities and Taxes Compare to Other States?

*Comparing Florida's budget and spending priorities to other states helps clarify our choices and whether we're building the kind of state we desire.*

Florida spends a larger share of its budget on corrections than all but two states. We spend a smaller share on elementary and secondary education, and a much smaller portion on higher education.<sup>20</sup> In fact, state and local government spending on higher education in Florida, as a percentage of state personal income, was the lowest among the states in 2006, and spending on elementary and secondary education was lower than all but six states.<sup>21</sup>

When state and local spending for education are combined, Florida ranks 49<sup>th</sup> in per person spending for all of education and 41<sup>st</sup> for K-12 schools alone.<sup>22</sup> In 2008, the U.S. Department of Education reports, states spent an average of \$10,297 per pupil on elementary and secondary education. Florida's average of \$9,084 placed it 36<sup>th</sup> in the country.<sup>23</sup>

### Florida State Government Lowest in Nation State Employees Per 10,000 Population 2008

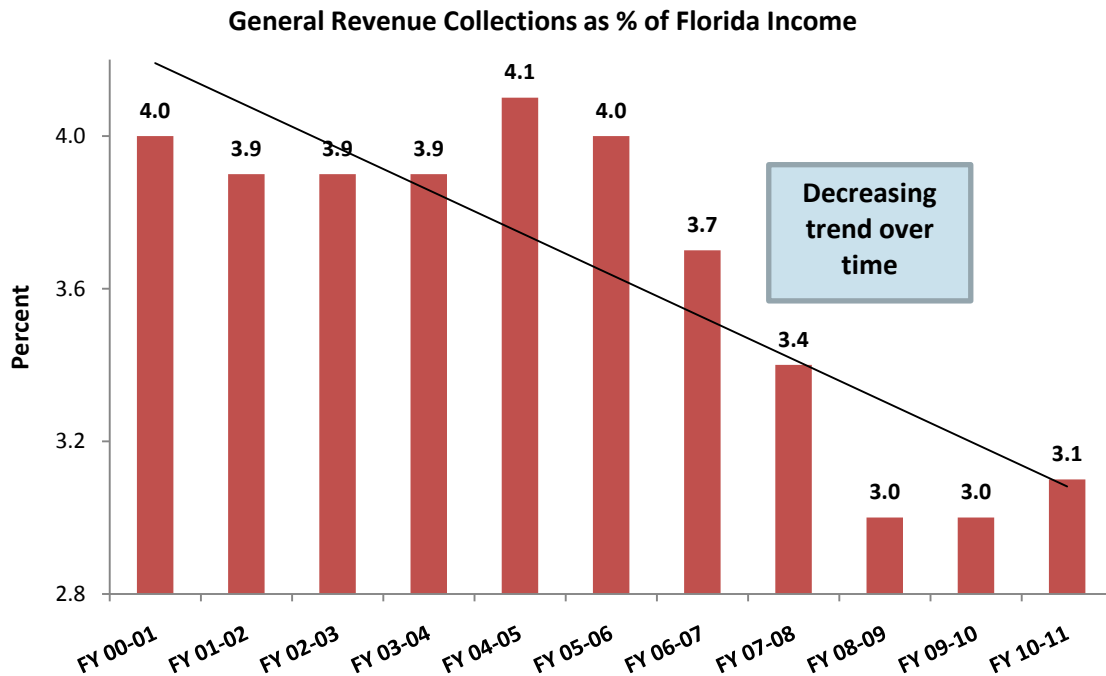


Source: [www.governing.com](http://www.governing.com)

What Florida doesn't spend money on is an oversized state workforce. In 2008, Florida state government recorded the lowest number of full-time and part-time workers per 10,000 people of any state.<sup>24</sup>

In 2006 – the peak of Florida’s real-estate boom – the state ranked only 40<sup>th</sup> in the country in total **state and local tax revenue** as a percentage of personal income. Florida’s rate fell well below the national average and below seven other Southern states.<sup>25</sup> And in **state government spending per person**, Florida’s state government spending of \$3,633 per person ranked 43rd in 2007, well behind the \$4,733 national average.<sup>26</sup>

Florida is a low-tax state. Despite complaints about rising taxes, Florida’s state government actually collects a smaller share of its citizens’ earnings today than it has over the last four decades. In FY2010-11, general revenue tax collections are estimated to be only 3.1 percent of Floridians’ personal income – the lowest in 40 years.<sup>27</sup>



Source: Florida Revenue Estimating Conference, “Long-Term Revenue Analysis, FY 1970-71 Through FY 2018-19,” Fall 2009

# Going Forward

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**T**his Primer is designed to help citizens understand the state budget and assess how effectively state government meets the needs of Floridians. Knowledge of revenues and spending lays the foundation for consideration of a large question that continues to hang over Florida's future: whether the state's tax structure is both fair and adequate. As Florida rebuilds from the recession, citizens and policymakers can make more informed choices about how to improve the state's economic vitality and quality of life.

Florida's budget and tax system is in need of an overhaul. The present system can't meet the growing needs of Florida's residents and businesses with a tax system that was developed more than 60 years ago. Modernizing the tax system is long overdue. Too many needs go unmet; too many Floridians go without critical services for too long a period of time. The thousands of people on "waitlists" for public services include:

- Over 28,000 people who are elderly.
- 19,000 people with disabilities.
- 17,000 people with substance abuse problems.
- 190,000 adults with serious and persistent mental health problems.
- 200,000 children with emotional disturbances.
- Over 200,000 families needing financial assistance for childcare.

The Florida Center for Fiscal and Economic Policy has and will continue to provide constructive analysis and sound recommendations to modernize Florida's budget and tax system to meet the needs of all Floridians in a fair and equitable manner. This Primer is an important component of that effort.

# Glossary

## **Appropriations and Implementing Bills**

*Bills authorizing expenditure of public funds. These bills are effective for only one fiscal year.*

## **Budget**

*The totality of appropriations measures passed by the legislature. The detailed spending plan submitted by the governor to the legislature which recommends monetary allocations for each of the departments of the state for the next fiscal year is also known as a "budget." Using recommendations from the Governor and individual departments, each house prepares its own version of the budget*

## **Conference Committee Report**

*The report of a conference committee on the bill or bills for which the committee was formed. The conference committee report will usually include amendments proposed by the conference committee. The report of the conference committee must be either adopted or rejected as a whole by each house.*

## **Consensus Estimating Conferences**

*An umbrella term designating a group of conference bodies, consisting of members of the legislature, representatives from the governor's office, and designees from various state agencies, which meet to develop caseload/workload data and revenue projections to assist in the budgeting and appropriations process.*

## **Constitution**

*The written instrument embodying the fundamental principles of the state which establishes power and duties of the government and guarantees certain rights to the people. It is the basic law of the state and is ratified by vote of the people.*

## **Fiscal Year**

*For the state government of Florida, the period from July 1 to June 30 is referred to as the fiscal year for budgetary and accounting purposes.*

## **Governor's Budget**

*The governor submits a spending plan to the legislature recommending funding allocations for each state agency for the next fiscal year. Using recommendations from the Governor and individual departments, each house prepares its own version of the budget.*

## **Legislature, The Florida**

*Florida's bicameral legislature, composed of the 40-member Senate and the 120-member House of Representatives. Each house is the sole judge of the qualifications and elections of its members and has the power to choose its own officers and establish its own rules of procedure. Either house may initiate legislation on any subject. Senators serve four-year staggered terms and representatives serve two-year terms. No legislator may seek reelection "if, by the end of the current term of office, the person will have served . . . in that office for eight consecutive years." See [Section 4 of Article VI of the State Constitution](#).*

## **President of the Senate**

*The presiding officer of the Senate, having been designated by the majority party in caucus and then elected by the full membership of the Senate for a term of two years at the organization session.*

## **Proviso**

*Language used in a general appropriations bill to qualify or restrict the way in which a specific appropriation is to be expended.*

**Public Review Period, Constitutional (72-hour rule)**

A 72-hour public-review period required by [section 18\(d\) of Article III of the State Constitution](#) before final passage of general appropriations bills. [Section 1\(e\) of Article VII](#) requires a 72-hour period after third reading before the final passage of a bill increasing state revenues.

**Session**

The term is used to refer both to a particular day's meeting of the Senate or the House and to the entire period for which the legislature has been convened.

**Regular Session.** This is the name given to the annual session that begins on the first Tuesday after the first Monday in March of each odd-numbered year, and on the first Tuesday after the first Monday in March, or such other date as may be fixed by law, of each even-numbered year, for a period not to exceed 60 consecutive days.

**Speaker of the House of Representatives**

The presiding officer of the House of Representatives, designated by the majority party in caucus and then elected by the body for a term of two years at the organization session.

**Trust Fund**

A trust fund is a special account into which certain funds are deposited and out of which funds are disbursed for a specific and exclusive purpose.

**Veto, Line item**

Power of the governor to selectively veto items in a general appropriations act or any specific appropriation in a substantive act containing an appropriation. See [section 18\(b\) of Article III of the State Constitution](#) for restrictions on the governor's use of this power.

**Veto override**

Action by the legislature to set aside the governor's objections to an act. It takes two-thirds of the members voting in each house to override a veto.

(Note: Sources for the definitions of terms in this Glossary include the Florida House, Florida Senate and the Office of the Governor.)



# Endnotes

<sup>1</sup> *Fiscal Analysis in Brief, 2009 Legislative Session, Florida Legislature.*

[http://edr.state.fl.us/reports/fiscal%20analysis%20in%20brief/Fiscal%20Analysis%20In%20Brief\\_2009\\_Final.pdf](http://edr.state.fl.us/reports/fiscal%20analysis%20in%20brief/Fiscal%20Analysis%20In%20Brief_2009_Final.pdf)

<sup>2</sup> <http://www.ebudget.state.fl.us/motherinfo.aspx>

<sup>3</sup> *Generally, not more than 3.0% - see Article III, section 19(a)(2), the Florida Constitution.*

<sup>4</sup> *“Budgetary Process,” Florida’s Ten-Year Summary of Appropriations Data, 2000-2001 through 2009-2010, Executive Office of the Governor, December 7, 2009.*

<sup>5</sup> <http://edr.state.fl.us/conferences.htm>

<sup>6</sup> [http://edr.state.fl.us/longrangeplan/3%20Year%20Plan\\_Fall%202009\\_1011-1213.pdf](http://edr.state.fl.us/longrangeplan/3%20Year%20Plan_Fall%202009_1011-1213.pdf)

<sup>7</sup> *Florida’s Ten-Year Summary of Appropriations Data, 2000-2001 Through 2009-2010, Executive Office of the Governor and FY2010-11 General Appropriations Act (less vetoes).*

<sup>8</sup> *Fiscal Analysis in Brief, 2009 Legislative Session, Florida Legislature.*

<sup>9</sup> <http://bus.utk.edu/cber/staff/mnmecon338/foxipt.pdf>

<sup>10</sup> *The Tax Foundation, “TAXDATA” April 2010.*

<sup>11</sup> *2010 Florida Tax Handbook, Florida Revenue Estimating Conference,*

<http://edr.state.fl.us/taxhandbooks/taxhandbook2009.pdf>

<sup>12</sup> *Ibid. (Tax Handbook)*

<sup>13</sup> *Ibid. (Tax Handbook)*

<sup>14</sup> *2009 Summary of Legislation Passed, Florida Senate.*

<http://www.flsenate.gov/publications/2009/senate/reports/summaries/pdf/finance.pdf>

<sup>15</sup> <http://dhr.dos.state.fl.us/facts/history/summary/>

<sup>16</sup> <http://www.leg.state.fl.us/data/committees/joint/JCLB/3YearPlan2008Draft.pdf>

<sup>17</sup> *“Florida Population and Components of Change, Florida Demographic Estimating Conference, February 18, 2009*

[http://edr.state.fl.us/conferences/population/FDEC0902\\_pop\\_change.pdf](http://edr.state.fl.us/conferences/population/FDEC0902_pop_change.pdf)

<sup>18</sup> *Florida Economic Overview, June 23, 2009,*

[http://edr.state.fl.us/presentations/recentpresentations/Fl%20Economic%20Overview\\_6-23-09.pdf](http://edr.state.fl.us/presentations/recentpresentations/Fl%20Economic%20Overview_6-23-09.pdf)

<sup>19</sup> *Florida & Metro Forecast 2009-2013, Institute for Economic Competitiveness, pg. 6, University of Central Florida, December 2009.*

<sup>20</sup> *National Association of State Budget Officers, 2007 State Expenditure Report.*

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<sup>21</sup> <http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?DocID=522&Topic2id=90&Topic3id=92>

<sup>22</sup> *State and Local Government Finances: 2004 – 2005*, CQ Press, using data from the U.S. Bureau of Census; *Rankings and Estimates*, December 2007, and National Education Association.

<sup>23</sup> U.S. Dept. of Education, *NCES Common Core of Data (CCD) “National Public Education Financial Survey (NPEFS),”* fiscal year 2008, Version 1a.

<sup>24</sup> [www.governing.com](http://www.governing.com)

<sup>25</sup> *State & Local Government Finance Data Query System*. <http://www.taxpolicycenter.org/tpc/pages.cfm>. The Urban Institute-Brookings Institution Tax Policy Center. Data from U.S. Census Bureau, *Annual Survey of State and Local Government Finances*, *Government Finances*, Volume 4, and *Census of Governments (Years)*.

<sup>26</sup> *Kaiser State Health Facts, Total State Expenditures per capita, SFY 2007*. <http://www.statehealthfacts.org/comparebar.jsp?ind=32&cat=1&sub=10&yr=95&typ=4&sort=a>

<sup>27</sup> *Revenue Analysis, FY 1970-71 Through FY 2017-18, Volume 24, Fall, 2008, Florida Revenue Estimating Conference*. [http://edr.state.fl.us/reports/book2/book2\\_2008.pdf](http://edr.state.fl.us/reports/book2/book2_2008.pdf)

**This Primer was researched and written by the staff  
of the Florida Center for Fiscal and Economic Policy**

*The Florida Center for Fiscal and Economic Policy conducts independent research and educates the public and policymakers on state fiscal and economic policies with particular attention to the impacts on low-and moderate-income individuals, families and neighborhoods, workers, and small businesses. This report was funded in part by support from the Kellogg, Stoneman Family, and Annie E. Casey Foundations. The report and its findings do not necessarily reflect the views of the foundations or the FCFEP Board of Directors.*