

***The Magic \$1 Billion Reserve***  
**Governor, Legislative Budget Proposals Set Aside  
More Reserves Than Necessary**

Governor Rick Scott and Senate and House leaders all plan to set aside far more money in reserves in the 2012-13 state budget than traditional financial practices require. The inflated reserve fund will force new cuts to health and human service programs and again shortchange public schools, state colleges, and universities.

Governments typically set aside reserves to handle unanticipated fiscal pressures caused by a substantial drop in revenues or an unexpected increase in needed expenditures. The Florida Legislature avoided more severe budget cuts by using reserve funds beginning in 2007, when the Great Recession caused tax revenues to decline and increased the number of Floridians requiring services from safety net programs like Medicaid.

Normally, states are considered to be fiscally prudent if they maintain reserves equal to five percent of general revenue (GR).

But stashing away \$1 billion in general revenue, as the Governor and legislative leadership propose, would substantially exceed the five-percent level. That action, combined with their refusal to consider any tax modernization proposals that would generate new revenue, will produce another budget inadequate to meet the needs of the state. Meanwhile, no public discussion has occurred about how much money should be reserved and the impact of the level of reserves on appropriations for vital public services.

***Stashing away \$1 billion in general revenue, combined with refusal to consider any tax modernization proposals that would generate new revenue, will produce another budget inadequate to meet the needs of the state.***

**How Much Should Be In Reserves and How Does Florida Measure Up?**

Organizations that rate the creditworthiness of a state government consider reserves equal to five percent of annual general revenue as adequate to guard against fiscal emergencies.<sup>1</sup> Reserves include general revenue unallocated and left over from the previous year, plus the amount in the Budget

Stabilization Fund,<sup>2</sup> an account required by the state Constitution to be available for offsetting a deficit or for emergencies.<sup>3</sup>

After falling slightly below the five-percent standard in the 2010-11 fiscal year, the state's reserves exceed that level in the current fiscal year (2011-12).<sup>4</sup> Reserves also will be larger than the five percent recommended in the 2012-13 fiscal year – the one for which the budget is being developed in this legislative session – without setting aside so much money.

State general revenue – primarily collections from the sales tax, the corporate income tax, and highway safety and motor vehicle fees – is expected to total \$24.5 billion in the 2012-13 fiscal year.<sup>5</sup> That means about \$1.2 billion would be needed in reserves to meet the five-percent benchmark.

The Budget Stabilization Fund contains \$494 million now.<sup>6</sup> Budget proposals would add to that total both the unallocated \$1 billion reserve from general revenue (money that was unspent last year) and

*By choosing to set aside fewer dollars as reserves, the legislature would make more available for health care, social services, education, and transportation.*

another \$214.5 million required to pay back previous borrowings from the Budget Stabilization Fund.<sup>7</sup> Adding those amounts would increase reserves to more than \$1.7 billion – 6.9 percent of revenues, or about **\$500 million more than considered adequate.**

In another calculation of the level of reserves needed – one that “provides for a more realistic picture of the State’s financial flexibility,” according to the Florida Division of Bond Finance<sup>8</sup> – reserves would be even more excessive with the \$1 billion the Governor and legislature want to set aside. That method, using “established budget practices,” considers trust fund balances, including the approximately \$700 million in the Lawton Chiles Endowment Fund – as part of the state’s reserves.<sup>9</sup>

Adding in the Chiles endowment would raise the total of reserves to \$2.4 billion, about 10 percent, or twice the percentage considered adequate. (That is the level insisted upon by Speaker of the House Dean Cannon: “Unallocated General Revenue, the Budget Stabilization Fund, and the Lawton Chiles Endowment should provide a total budget reserve that exceeds \$2.46 billion,” he wrote to House members January 19.)<sup>10</sup>

Another \$672 million now sits in a variety of smaller trust funds.<sup>11</sup> If that total remains unspent and is added to the total, reserves would exceed \$3 billion, or 12 percent – about **\$1.8 billion more than the amount required** under the five-percent standard recommended by rating agencies. The Governor’s proposed budget, which includes the \$1 billion GR set-aside, would leave total reserves at more than \$3 billion, or 12 percent, even though the document notes that “rating agencies desire a reserve of 5%.”<sup>12</sup>

**That amount far exceeds the projected \$1 billion to \$1.4 billion budget gap identified in the current financial outlook.**<sup>13</sup> By choosing to set aside fewer dollars as reserves, the legislature would make more

available for health care, social services, education, and transportation. Spending for these purposes would result in more jobs and more money in the economy, helping strengthen the recovery.

This report was researched and written by Alan Stonecipher.  
The report and its findings do not necessarily reflect the  
views of the FCFEP Board of Directors.

## Endnotes

<sup>1</sup> “2011 Debt Affordability Report,” Division of Bond Finance, State Board of Administration, Page 23.

<https://www.sbafla.com/bondfinance/LinkClick.aspx?fileticket=lrTCob4-FOo%3d&tabid=1055>

<sup>2</sup> Ibid.

<sup>3</sup> 2011 Florida Tax Handbook. <http://edr.state.fl.us/Content/revenues/reports/tax-handbook/taxhandbook2011.pdf>

<sup>4</sup> State of Florida Long-Range Financial Outlook, Fiscal Year 2012-13 through 2014-15, Fall 2011 Report As Adopted by the Legislative Budget Commission, Page 6.

[http://edr.state.fl.us/Content/long-range-financial-outlook/3-Year-Plan\\_Fall-2011\\_1213-1415.pdf](http://edr.state.fl.us/Content/long-range-financial-outlook/3-Year-Plan_Fall-2011_1213-1415.pdf)

<sup>5</sup> “Update: Long-Range Financial Outlook,” presentation by Amy Baker, Office of Economic and Demographic Research, Senate Budget Committee, January 19, 2012.

<http://www.flsenate.gov/PublishedContent/Committees/2010-2012/BC/MeetingRecords/PACKET1-19-12.pdf>

<sup>6</sup> General Revenue Financial Outlook Statement, Division of Economic and Demographic Research.

[http://edr.state.fl.us/Content/revenues/outlook-statements/general-revenue/120112\\_GRoutl.pdf](http://edr.state.fl.us/Content/revenues/outlook-statements/general-revenue/120112_GRoutl.pdf)

<sup>7</sup> “Update: Long-Range Financial Outlook,” presentation by Amy Baker, Office of Economic and Demographic Research, Senate Budget Committee, January 19, 2012, Page 8.

<http://www.flsenate.gov/PublishedContent/Committees/2010-2012/BC/MeetingRecords/PACKET1-19-12.pdf>

<sup>8</sup> “2011 Debt Affordability Report,” Division of Bond Finance, State Board of Administration, Page 24.

<https://www.sbafla.com/bondfinance/LinkClick.aspx?fileticket=lrTCob4-FOo%3d&tabid=1055>

<sup>9</sup> Ibid.

<sup>10</sup> <http://www.myfloridahouse.gov/Sections/Documents/loaddoc.aspx?DocumentType=Press%20Release&FileName=e=480>

<sup>11</sup> “Governor Rick Scott, Fiscal Year 2012-13,” budget presentation, Governor’s Office of Planning and Budgeting, Page 16. <http://letsgettowork.state.fl.us/reports/2012-Budget-Presentation-FY-2012-13.pdf>

<sup>12</sup> Ibid.

<sup>13</sup> “Update: Long-Range Financial Outlook,” presentation by Amy Baker, Office of Economic and Demographic Research, Senate Budget Committee, January 19, 2012.

<http://www.flsenate.gov/PublishedContent/Committees/2010-2012/BC/MeetingRecords/PACKET1-19-12.pdf>