



What's Keeping Florida From Investing in Needed Public Services?

Florida's economy generates sufficient revenues to fund public services to meet state needs. However, a large portion of potential state revenues never enter state coffers because of loopholes in the state's tax laws, resulting in future budget shortfalls. Instead of cutting the state budget in the name of fiscal conservatism, the state Legislature should adopt policies to close these loopholes and invest state revenues in needed services that benefit all Floridians and the economy.

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Current discussions among Florida lawmakers suggest that plans are in the works to cut the state's total budget for the fiscal year starting July 1, 2017. Recent estimates suggest that after this year's budget, the state will face a cumulative budget shortfall of \$3.2 billion by fiscal year 2019-2020.¹ Lawmakers have already cut the state budget by almost \$4 billion since 2010. With state support for core public services currently at their lowest level on a per-resident basis since the recession, further cuts to the state budget would force reductions in education and job training, transportation, health care and public safety.

Balancing the state budget is a difficult process; lawmakers must prioritize and balance long- and short-term state needs, as well as determine how much to allocate for competing priorities. The process becomes more difficult when there are potential budget shortfalls. While lawmakers grapple with how they will allocate available funds over the next three years, it is worth taking a step back and asking the question: If Florida's economy is doing so well, why is it facing a potential budget shortfall?

Why is Florida facing a potential budget shortfall?

In large measure, the answer is the state's focus on continually reducing potential revenues and its lack of focus on tax expenditures. Tax expenditures are a form of silent spending through legislation that changes Florida's tax laws. These changes, once enacted, are not part of the annual appropriations process. Tax expenditures reduce the amount of revenues the state collects each year by exempting or returning taxes on selected products and services and business income. Examples include state spending of almost \$300 million² per year on insurance company tax credits for employees based in Florida, and more than \$26 million per year in sales tax exemptions on feed for horses and ostriches.³

Florida's economy has added more than \$172 billion dollars⁴ in personal income, more than 1.5 million private sector non-farm jobs⁵, and almost \$10 billion⁶ in potential state revenues since 2010. However, actual state revenues collected and transferred only grew by \$5.7 billion over the same period. The difference corresponds to legislatively enacted tax expenditures averaging more than \$550 million per year — for a total of almost \$4 billion — over the same period. The \$4 billion never made it into state coffers. It does not include business subsidies appropriated through the state's budget in the form of economic development programs under the controversial Enterprise Florida. Since 2010, the cost of all tax expenditures grew by 4.3 percent per year, outpacing the state's economic growth and creating a bigger hole in potential state revenues. Without access to these revenues, it is increasingly difficult for the state to adequately fund critical services. In the current fiscal year, the cost of sales tax exemptions for businesses alone is almost \$5 billion.⁷ (See our full [report on tax expenditures in Florida](#).)

What is more concerning about tax expenditures is that, as a general rule, they remain in law without review or an expiration date. Tax expenditures are not systematically evaluated to ensure they serve a public purpose or that potential benefits that may have been contemplated with their passage have been realized. Accordingly, these expenditures are not scrutinized by lawmakers in the same manner as expenditures on other priorities such as education, health care and transportation. When significant revenues are unavailable to fund core services, it creates the perception that the cost of core services exceed available state revenues. This imbalance is used as the justification for cutting funding for core services, which is illogical. Florida's economy currently generates sufficient revenues to increase funding across the board for core services, but substantial revenues never make it into the state coffers.

Budgeting involves discussions on both revenues and expenditures. Lawmakers tend to focus only on the expenditure side of the budget. Any proposal to raise revenues to fund services is equated to "killing jobs." But while lawmakers shy away from any discussion on the revenue side of the budget, they continue to cut millions from potential state revenues. Despite projections of future budget shortfalls, lawmakers introduced more than 50 bills in the 2017 legislative session that would alter the state tax laws, further reducing future state revenues.

Current State of Public Services in Florida

Currently, state support for public services on a per-person basis is at all time low since the recession and is trending downward.⁸ Across the individual policy areas, state funding for services is either insufficient to meet current state need or lags the rest of the country. Take, for example, the following areas:

- Health care – There are 2.6 million Floridians – 13.3 percent of residents – who do not have health insurance coverage.⁹

- Education – Florida has cut state funding for higher education by 22.7 percent since 2008; during the same period, tuition increased by 64.3 percent, an increase of \$2,490 per student.¹⁰
- Public safety – Florida’s prison system, which houses more than 100,000 inmates, is understaffed and underfunded.¹¹
- Affordable Housing – Thirty-six percent of Florida households pay more than 30 percent of their incomes for housing and 18 percent pay more than 50 percent.¹²
- Transportation – More than half of Florida’s total traffic rely on the state highway system, which represents only 10 percent of road miles in Florida. Currently, in cities like Miami and Orlando, the cost of congestion exceeds \$1,000 per year per driver.¹³

Further cuts to the state budget would make it harder for the state to close existing gaps in services and invest in the future of Floridians. In fact, cutting the state budget would shift the burden on families and businesses to pay more to access these services. Currently, 44 percent of Florida households cannot afford to pay for basic costs of living – including food, health care, housing, child care and transportation – much less other crucial costs, such as higher education. Ironically, these are the same services for which state funding has been gutted since the recession and again are on the chopping block.

Sustainability of State Revenues to fund Public Services

Now more than at any point in Florida’s history, the adequacy and sustainability of state revenues to fund core public services are under threats, both from internal and external factors. Internally, Florida’s population is projected to grow annually by more than 1.5 percent over the next few years, increasing the demand for public services. The duration of Florida’s economic growth is unknown. If lawmakers continue to give away future state revenues, it will be even more difficult for the state to raise sufficient revenues to provide basic services for its residents.

Externally, budget cuts and policy changes at the federal level will likely impact the state budget. Since 34 percent of Florida’s budget comes from federal funds, cuts to the federal budget would reduce funds available to the state budget. In terms of policy changes, if Congress acts on recent proposals, Florida stands to lose hundreds of millions in federal funding for programs such as Medicaid and the Temporary Assistance for Needy Families program. Likewise, federal tax reforms that lower the Adjusted Gross Income (AGI) for taxing corporate income would also lower tax revenues for Florida. Currently, the state’s calculation of corporate income taxes begins with the federal corporate AGI.

How can Florida put State Revenues on a Sustainable Path?

There are simple steps lawmakers can take to put state revenues on a sustainable path without passing legislation requiring new taxes on businesses or families. This can be achieved in the following ways:

- Including a specific explanation of what each tax expenditure law intends to achieve.
- Requiring regular nonpartisan evaluation of tax expenditures to determine how successful they have been in achieving their objectives and recommending reforms.
- Specifying an expiration date for each tax expenditure to allow for its evaluation, and voting on the expenditure again in light of evidence of its success, or lack thereof.
- Including specific recommendations related to any tax expenditure that has been recently evaluated in each budget presentation (from the governor, House and Senate).
- Requiring the finance and tax committees of the state Legislature to hold hearings on any tax expenditure that has been recently evaluated.

To this end, current statutes already require periodic evaluation of several tax expenditures. However, the evaluation is limited to few economic development programs, which represent a very small share of the total tax expenditures. The Florida House of Representatives is considering House Bill 7005, which seeks to eliminate 24 tax credit programs for which the state has conducted evaluations.

Current efforts are not sufficient to bring tax expenditure laws under scrutiny and take control of the growing costs. Lawmakers need to muster the political will and increase efforts to close these loopholes in the state tax laws.

Conclusion

Lawmakers' plan to cut the state budget is short-sighted. Cutting the state budget further would result in harm to Florida's families and its economy. This is unfair to all residents, particularly the 44 percent of Florida households that cannot afford basic costs of living. Lawmakers should insist on policies that would restore state revenues and return investment in the core public services that support the state economy, businesses and families.

Further, lawmakers must recognize that the current path of the state's budget is unsustainable. Given growing demands for public services and prospective federal policy reforms, the state is likely to face additional impacts on its budget. Continuously cutting state revenues to fund tax breaks further undermines the state's ability to raise sufficient revenues to fund core services, even when the economy is growing. Lawmakers should take the necessary steps to bring current tax expenditure laws under scrutiny, assess their impact on state revenues and the economy and eliminate those that are not delivering real economic benefits to all Floridians.

Notes

¹ The Florida Legislature, [Long-Range Financial Outlook \(Three Years Plan\)](#). p. 22.

² Florida Revenue Estimating Conference, [Florida Tax Handbook 2017](#). p. 115.

³ Florida Revenue Estimating Conference, [Florida Tax Handbook 2017](#). p. 167.

⁴ The Florida Legislature, Office of Economic and Demographic Research, Florida Estimating Conference, Florida Economy, Conference Results: [Short Run Tables-February 2011](#). p. 2; and [Long-Run Table, February 2017](#). p. 2. (Note: Florida's Personal Income in 2010 was \$749.7 billion and in 2016 was \$920.1 billion).

⁵ U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts Data, Interactive Tables: State Annual Income and Personal Employment, [Total Full-Time and Part-Time Employment by Industry \(SA25, SA25N\)](#).

⁶ This is the sum of actual increase in general revenues collected and transferred from 2010 to 2016 totaling \$5.8 billion and the total tax cuts during the same period of \$3.89 billion. See The Florida Legislature, [Florida Tax Handbook 2010-2016](#); and The Florida Legislature, [Florida Revenue Estimating Conference, Long-Term Revenue Analysis. Table 1.3](#). p. 19.

⁷ Florida Revenue Estimating Conference, [Florida Tax Handbook 2017](#). p. 170. (Note: Businesses include all exemptions for for-profit businesses, not-for-profits organizations, and miscellaneous exemptions).

⁸ Singh, Dhanraj (2017): [Florida's support for public services lowest since the recession and trending downward](#). Florida Policy Institute.

⁹ Dadi, Esubalew (2017): [Florida ranks 45th for its Rate of Insured Residents, Despite Historic Increases in Coverage](#). Florida Policy Institute.

¹⁰ Golden, Terry (2016): [Florida Higher Education Funding Lags Pre-Recession Levels, Shifts Burden to Families](#). Florida Policy Institute.

¹¹ Dadi, Esubalew (2016): [Florida's Prison System is Understaffed and Underfunded](#). Florida Policy Institute.

¹² Golden, Terry (2016): [Insufficient Affordable Housing Limits Florida's Economic Potential](#). Florida Policy Institute.

¹³ American Society of Civil Engineers, Infrastructure Report Card, [2016 Report Card for Florida's Infrastructure](#). p.1.