WHERE’S THE MONEY?

As we predicted in Tough Choices and Tough Choices: Update 2008, Florida is in an increasingly untenable fiscal bind. Revenues continue to fall and demands increase, especially for programs such as Medicaid and Food Stamps. According to the Florida Center for Fiscal and Economic Policy, Florida has experienced a recurring general revenue reduction of 17.1% over the last three years and will experience a continuing decline until at least 2010. The coming year’s (2009-2010) budget shortfall is more than $5 billion despite a $6 billion reduction in the state budget over the past three years (see Chart 1). Cuts have come in critical areas such as health care and education.

Compared with the rest of the southeastern states, Florida outpaces the other states in both general fund revenues and expenditures (see Chart 2). While Florida is not the only state to see revenue shortfalls, it is in a league of its own in terms of amount. However as Chart 3 shows, when controlling for size of the state, it is clear that Florida is far from profligate. In 2007, Florida’s state expenditures were $3,607 per capita—the lowest among all southern states and some $250 per person lower than the next lowest state—Georgia.

A myriad of factors plays a role in the drop in revenues. Since Florida relies so heavily on the sales tax, when citizens curtail their buying and when the number of tourists falls, our revenues respond in kind. Of course the recent housing woes have also adversely affected our tax yield and the number of jobs in the state.
WHERE ARE THE JOBS?

Construction jobs in Florida have dropped off sharply since a 2006 high (see Chart 4). As we noted in Tough Choices: Update 2008, Florida income per resident actually increased from 2004-2006 and was largely attributed to construction following the real estate/hurricane rebuilding boom, which provided relatively well paying jobs for many Floridians. But this boom has come to an abrupt halt. As the housing bust of 2008 hit Florida and continues to trickle down, many families have found themselves out of a job and out of a home. Florida had the nation’s second highest foreclosure rate with one in twenty-two housing units in the state receiving at least one foreclosure notice. Few expect to see much relief for the state and its homeowners in 2009.

Florida has traditionally relied on tourism as a large source of funding. Without the inflow of money from other sources (such as a state income tax), Florida is reliant on tourism to meet many of its budgetary needs. But tourism is unlikely to sustain Florida through hard economic times. As Chart 5 illustrates, growth in tourists slowed significantly in 2005. Florida benefits from taxing tourists on purchases, entertainment, meals, and gasoline. Localities benefit from hotel taxes. Both have been adversely affected by the national economic woes. For example, in November 2008, Orange County saw its hotel-tax collections fall by more than 13% over November 2007—the sixth straight month that tax collections had fallen in that tourist mecca. Chart 6 shows the leveling off of state tax revenues from tourism even before the bottom fell out of the nation’s economy in Fall 2008.

Another important indicator of potential revenues is unemployment. Here there is good news and bad news. The good news is that even with the recent uptick in unemployment, the rates remain far below what they have been at various times over the past thirty years (see Chart 7). The bad news is that change is underway and it is not positive. In 2008, over 680,000 unemployment claims were filed. In December 2008, Florida had an unemployment rate of 8.1%—the highest number of unemployment claims in Florida since 1992 and higher than the national average of 7.2%. The loss in construction jobs is a major factor in the rapidly increasing unemployment rate.

WILL FLORIDA’S POPULATION GROWTH SAVE US?

Growth has long fueled Florida’s economy (although it also increases service demands). At the time of the 2000 Census, Florida ranked 4th in the nation in population. The Census Bureau projected that Florida would gain 12 million more people between 2000 and 2030, placing it as the 3rd fastest growing state in the US. But in July of 2008 the United States Census Bureau reported that 9,300 more citizens left Florida than moved in during the previous 12 months. Chart 8 shows the estimated percentage of moves inbound versus outbound from 2003-2008. For the first time the percentage of domestic outbound moves outpaced domestic inbound moves in 2007, with the gap growing in 2008. As Tough Choices: Update 2008 pointed out, the attraction to Florida for young working professionals appears to be waning as other states provide cheaper housing and better education.
At the same time, Florida's population does continue to grow, albeit at a slower rate than in previous years (see chart 9). According to the University of Florida’s Bureau of Economic and Business Research, Florida is expected to add about 209,000 residents a year between 2007 and 2010, far less than the annual increases of about 418,000 a year that Florida experienced between 2002 and 2006. The growth will be primarily due to the number of births in Florida. The Florida Bureau of Vital Statistics reported that, in 2007, there were 12.8 births per 1,000 members of the population and only 9 deaths per 1,000.

An additional reason for population growth may be immigration. In December of 2008 the United States Census Bureau estimated that net international migration is expected to add one person every 36 seconds to the US population in January 2009. In Florida, immigrants obtaining legal permanent resident status (defined by the Department of Homeland Security as “a person granted lawful permanent resident status is authorized to live, work, and study in the US permanently”) have added nearly a million people to the population during the last decade (see Chart 10). And while illegal immigration numbers are difficult to come by, the Immigration and Naturalization Service and now the Department of Homeland Security estimated the number of illegal immigrants at 270,000 in 1992, 337,000 in 2000, and 980,000 in 2006.

Retirees are another source of population growth in Florida. Tough Choices: Update 2008 pointed out that growth of retirees in Florida, which continues to climb, has the potential to benefit the economy. Florida remains the “oldest” state in the nation, with around one in five of its citizens over 65. The average retiree in Florida contributes an additional $2,000 more in revenues than he or she consumes in public services. However, with the economic downturn, young professionals leaving the state, the housing market crisis, and increasing numbers of immigrants, combined with the potentially increasing demands for spending in areas such as PreK-12 and Medicaid, Florida needs to rethink how its population trends will affect the state, its capacity to provide services, and its ability to raise revenues.

Florida, as all states, provide a plethora of services for its citizens ranging from environmental protection to foster care, parks and recreational areas to job training. However, in this update, as in previous ones, we will focus primarily on three spending areas—PreK-12 education, higher education and Medicaid. These areas make up approximately 57% of the state’s budget yet also offer considerable discretion to policymakers in the design of programs.

PREK-12 EDUCATION: WHAT’S REALLY GOING ON?

In Tough Choices: Update 2008 we reported that enrollment in PreK-12 public schools had abruptly halted, after years of experiencing growth of 30,000 to 50,000 new students a year. Birth rates in Florida have held steady over the past decade, ranging from 12.3 per 1,000 (2003) to a high of 12.9 (2006) suggesting that the days of major growth in school-age
population are over. Chart 11 illustrates both the rapid increase and the slower drops in enrollment. In the 2008-09 school year, there were nearly 17,000 fewer students in Florida schools, the third year in a row of falling enrollment. As the chart shows, an uptick is expected in 2011-12 but these numbers are highly speculative.

Providing high-quality education for those students remaining in the schools remains a daunting task. Florida spends, on average, $8,437 per student, compared to a national average of $9,993. In its 2009 special session, the Florida legislature balanced its budget in part by cutting $140 per student. The high costs associated with the 2002 constitutional amendment limiting class size still loom (although there have been recent efforts by public school officials and others encouraging the legislature to relax the requirements). Florida continues to place large financial burdens on local governments to provide school funding. We reported last year that the local share of school funding in the 2004-2005 school year was greater than for any other southern state, save Virginia, and this remains true. In fact, the local share of public school funding continues to increase with no signs of slowing (see Chart 12).

Florida’s pay for teachers is well in the middle of the pack in the country and compared to other southern states. However, these salaries, shown in Chart 13 are not adjusted for cost-of-living which is much higher in Florida than most—if not all—other southern states. At the same time, Florida remains in last place compared with other southeastern states when it comes to the number of students per teacher.

**HOW LOW CAN IT GO IN HIGHER EDUCATION?**

The per capita amount of money spent by the state and local governments on higher education in Florida in 2007 was almost $197, up from $166 in 2004. Yet Florida lags dramatically behind other states in the South and the US as a whole; on average, Florida spends about $95 less per capita than Georgia, North Carolina, and Texas and $80 less per capita than the rest of the nation (see Chart 14).

We detailed in *Tough Choices: Update 2008* the disparity between Florida and other southern states regarding public university tuition: Florida still lags behind all southern states, in fact it is now ranked the lowest in terms of tuition in the entire country—down from 49th a year ago (see Chart 15). While affordable higher education should be a goal of any state, the ability to raise revenue at the university level eventually decreases the quality of the education offered. The linkage between high quality education and the state’s economic wellbeing is well established. Raising university tuition can provide universities with smaller classes, the ability to attract and keep top-notch faculty, greater capacity to provide financial aid to those who need it, and competitiveness for graduating

**Chart 14**

*State and Local Support for Education per Capita, 2000-2007*

<table>
<thead>
<tr>
<th>Year</th>
<th>FL</th>
<th>GA</th>
<th>NC</th>
<th>TX</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$204.00</td>
<td>$284.00</td>
<td>$359.00</td>
<td>$218.00</td>
<td>$275.00</td>
</tr>
<tr>
<td>2001</td>
<td>$205.00</td>
<td>$318.00</td>
<td>$360.00</td>
<td>$288.00</td>
<td>$280.00</td>
</tr>
<tr>
<td>2002</td>
<td>$190.00</td>
<td>$304.00</td>
<td>$351.00</td>
<td>$312.00</td>
<td>$279.00</td>
</tr>
<tr>
<td>2003</td>
<td>$171.00</td>
<td>$291.00</td>
<td>$337.00</td>
<td>$282.00</td>
<td>$266.00</td>
</tr>
<tr>
<td>2004</td>
<td>$166.00</td>
<td>$279.00</td>
<td>$325.00</td>
<td>$265.00</td>
<td>$251.00</td>
</tr>
<tr>
<td>2005</td>
<td>$175.00</td>
<td>$277.00</td>
<td>$325.00</td>
<td>$253.00</td>
<td>$245.00</td>
</tr>
<tr>
<td>2006</td>
<td>$193.00</td>
<td>$265.00</td>
<td>$315.00</td>
<td>$251.00</td>
<td>$239.00</td>
</tr>
<tr>
<td>2007</td>
<td>$196.78</td>
<td>$260.38</td>
<td>$405.78</td>
<td>$259.68</td>
<td>$277.26</td>
</tr>
</tbody>
</table>

**Chart 15**

*Undergraduate Tuition and Fees FY 2009*

*SOURCE: National Center for Higher Education Management Systems*
students. Florida lawmakers are finally starting to take notice. The first step was allowing five state universities to assess a differential tuition fee of $200 - $250 per student per year. The governor wants to allow all state universities to assess these fees, and some legislators propose raising overall tuition rates so they are closer to the national average. There has also been some interest in reforming Bright Futures, the popular scholarship program designed to encourage Florida students to attend Florida universities. The Collins Institute has urged policymakers to decouple Bright Futures from tuition to eliminate the current disincentive for increasing tuition. The scholarship could be provided as a fixed amount, raised periodically. We also recommended that definition of merit be set higher and that a need-based component be added to the program.

**HOW CAN WE TAME MEDICAID: THE 800 POUND GORILLA?**

After leveling off for a brief period in the 2000s, Medicaid enrollment is expected to pick up again in the coming years following the same patterns we have historically observed. 2008 saw more than 100,000 new enrollees in Medicaid than had been expected by state health officials, largely attributed to the rising unemployment rate (see Chart 16). Medicaid currently accounts for more than 25% of Florida’s budget, insuring a quarter of Florida’s children and funding 63% of the state’s nursing home care. As we noted in Tough Choices: Update 2008, cuts in Medicaid spending not only leave many residents of Florida with costly, uncovered medical expenses but they also leave available matching federal money on the table. Health care research shows that when providers are financially strapped, quality of care for serious conditions gets worse.

In our original Tough Choices recommendations in 2005 we urged a careful assessment of Medicaid as a prerequisite for both making cuts and improving the effectiveness of the massive safety-net program. Instead, the state has continued to cut services here and there without a careful assessment of their impacts and without a full understanding of the intricacies and myriad components of the Medicaid system. We continue to urge a careful assessment of Medicaid, including prioritization of services and recipients, prior to additional incremental reductions.

**TOUGH CHOICES STILL AHEAD**

Unfortunately, even tougher choices lie ahead for Florida than those we originally predicted in 2005. The national recession and the state’s unwillingness to consider revenue increases have led to quick spending “fixes” and hopes for a federal “bailout.” The good news from the early days of 2009 is that the legislature is taking on some issues such as university tuition and reform of Bright Futures that were simply off the table in earlier years. The bad news is that the concerns remain largely short-term—what can be done to get us through the next few years or months, without consideration of the long-term trends highlighted by the Collins Institute and others. What is the vision of Florida that we want for our children and grandchildren? How can we achieve it? The state remains near or at the bottom in its provision of services in key areas of preK-12 education, higher education and Medicaid—among others. Its tax system is still sacrosanct, with new revenues coming from fees and consideration of major revision politically untouchable. Political leaders continue to rely on cuts to programs—even safety net stalwarts—to meet the constitutional demands of a balanced budget.

It is our hope that this update will help inform policymakers and their constituents of the spending and revenue trends and remind them how Florida compares—not to Michigan or New York—but to Georgia and North Carolina and to Florida itself in earlier years. These comparisons continue to reflect poorly on a state blessed with natural resources and spunky citizens, one with enormous potential and boundless energy. The current economic times can be an impetus for making changes in the structure of the state’s revenue system, a cause for prioritization of state spending in key areas such as Medicaid, higher education, and preK-12 education, and a time to educate a skeptical state populace on the role and value of government. It is a time for forward-thinking and imaginative elected officials to step up and take on these tasks.
The LeRoy Collins Institute is an independent, nonpartisan and non-profit organization which studies and promotes creative solutions to key private and public issues facing the people of Florida and the nation. The Institute, located in Tallahassee at Florida State University, is affiliated with and works in collaboration with the State University System of Florida.

Named in honor of former Florida Governor LeRoy Collins, the Institute is governed by a distinguished board of directors, chaired by Curt Kiser. Other board members include executives, local elected officials, and senior professionals from throughout the state. They are listed below.

In late 2005 the Institute published Tough Choices: Shaping Florida’s Future and Facing Florida’s Revenue Shortfall. This publication provided an in-depth analysis of Florida tax and spending policy including Medicaid, preK-12 education, higher education, and children’s health and welfare. The research concluded that Florida’s pattern of low spending and low taxes conflicted with the growing demands of the state’s residents and that trouble might be ahead. The report was written by David Denslow, professor of economics at the University of Florida, and Carol Weissert, professor of political science at Florida State University. The Institute made a number of recommendations based on the research. The research was funded by the Jessie Ball duPont Fund. Reports were distributed statewide among legislators, lobbyists, and university officials as well as to the media and public at large. The research was updated in 2008. The original and 2008 update are available on the Institute website: http://collinsinstitute.fsu.edu/

This is the third update of this work and was written by Jessie H. Ice and Carol S. Weissert. It is also available on the Institute webpage.

**Board of Directors:**

**Chairman** S. Curtis Kiser, Esq., Tallahassee

Jim Apthorp, Tallahassee

Lester Abberger, Tallahassee

Jane Collins Aurell, Tallahassee

Jeffrey Bartel, Miami

Rena Coughlin, Jacksonville

Sandy D’Alemberte, Tallahassee

Brian Dassler, New Orleans LA

Allison DeFoor, D.Min., Tallahassee

David Denslow, Ph.D., Gainesville

Rick Edmonds, St. Petersburg

Pegeen Hanrahan, Gainesville

Joel Embry, Fernandina Beach

Elizabeth Lindsay, Sarasota

William Maloy, Ph.D., Pensacola

John Marks, II, Tallahassee

Mike Michalson, Ph.D., Sarasota

John Padget, Key West

David Rasmussen, Ph.D., Tallahassee

Katherine Fernandez Rundle, Esq., Miami

Stella Ferguson Thayer, Esq., Tampa

**Director** Carol Weissert, Ph.D.