



FLORIDA'S FISCAL POLICY Responsible Budgeting in a Growing State

Florida's state government has been fiscally conservative and fiscally responsible, setting it apart from the governments of many other states. An important question for policymakers in Florida and elsewhere to answer is why this state has been different—specifically, how the state has remained fiscally responsible despite its population growth. Is Florida merely unique in its concentration of fiscally conservative leaders and voters, or are there also institutional factors that guard against the excesses of big government?

A new study published by the Mercatus Center at George Mason University examines Florida's budget history and concludes that the state owes its fiscal conservatism and responsibility largely to institutional factors as well as to restraint in spending and taxation. While Florida has not avoided problems with government programs, it has dealt with them better than other states.

To read the study in its entirety and learn more about its author, economist [Randall G. Holcombe](#), please see "[Florida's Fiscal Policy: Responsible Budgeting in a Growing State.](#)"

SUMMARY

Florida's budget appropriations have been volatile, with some years seeing significant increases and other years seeing significant decreases in spending. These changes are driven by three factors: a constitutional requirement for a balanced budget, a reluctance on the legislature's part to increase or create new taxes, and a willingness to spend any additional revenue rather than save for the future. The evidence points to Florida's political institutions, such as a balanced budget requirement and term limits, as the driving force behind the state's restraints on spending.

Florida's governors have shown a willingness to cut the budget across the board if revenues fall short midyear based on estimates from state economists. Moreover, the last major tax increase was in 1988, when the legislature increased the sales tax by 1 percent. Meanwhile, many taxes have been cut or eliminated altogether. While governments often raise taxes when revenues fall, Florida

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has not done so. When revenue has increased due to an upturn in the economy, Florida has spent that money rather than run a budget surplus. Real per capita expenditures leveled off after the passage of term limits in 1992.

Detailed analysis of Florida's fiscal policy reveals what sets Florida apart and how the state has been able to maintain fiscal responsibility despite substantial population growth in an era when many states have not. The study examines Florida's budget history, taxation structure, major expenditures, and regulatory schemes, and provides recommendations to state policymakers for the future.

KEY FINDINGS

In any government, public policy decisions are made based on the political power of those who favor the policies. This often results in policies that are shortsighted, favor special interests, and are inefficient because there is no good measure of their value in the absence of market prices. Three institutional factors play a role in keeping Florida a fiscally conservative and responsible state, regardless of the officials elected over time:

- *Term-limited legislature.* In 1992 Florida voters approved a constitutional amendment that limits state officeholders to eight years in a particular elected office. Most elected officials are unable to move to other higher offices after their term limits due to limited opportunities. As a result, those who run for office may be more interested in achieving public policy goals than establishing an enduring political career in their offices.
- *Division of political power.* The President of the Senate and Speaker of the House have tremendous power to set the legislature's agenda and all employees in each house are employed by their respective presiding officer. As such, individual legislators must curry favor with the presiding officer—who is elected in his or her final term in office—rather than with special interests.
- *Constitutional amendments.* Florida's constitution is relatively easy to amend, which means many policy items end up in the constitution even though they are not truly constitutional issues. This can constrain the legislature, since powerful interests may be able to place a popular policy issue on the ballot for voters if the legislature resists addressing it.

The study examines specific areas of Florida's budget history in detail:

- *State and local government employment.* Florida is well below the national average in state government employment. In 2012 the national average was 1.38% of the population employed by state governments, compared to Florida's 0.95%. State government employment as a percentage of Florida's population has shown a consistent downward trend since the mid-1990s, around the time that term limits were instituted.
- *Tax structure.* Florida's constitution prohibits lawmakers from implementing a personal income tax. The state's primary source of revenue is through the sales tax. Other sources of revenue include the documentary stamp tax on real estate purchases, real estate taxes,

and motor fuel taxes. Overall, Florida has kept taxes low and has refrained from creating new taxes.

- *Education and Medicaid spending.* While more than half of all spending in Florida's 2012/13 budget went toward education and Medicaid, the amount spent on education has decreased over time while Medicaid expenses have increased as a share of the budget. Within a 20-year period, education spending has fallen by more than 8% as a percentage of the state budget, from its high-water mark in the early 1990s. Expenditures on Medicaid have more than tripled as a share of the state budget since the early 1990s.
- *The Florida retirement system.* Many states are facing problems of unfunded liabilities in their retirement programs, but Florida's retirement system is in relatively good condition. New accounting standards show that Florida's funding level is 10% less than the state reported, however.
- *Citizens Property Insurance Corporation.* Though it was originally conceived as a state-based insurance agency of last resort, Citizens Property Insurance Corporation has lowered its rates and it held 23% of Florida homeowners policies in 2012—approximately 1.4 million policies. No hurricanes have made landfall since 2006, shielding Citizens from taking major losses beyond its financial ability, but another hurricane could bankrupt the insurer and leave Florida taxpayers on the hook. As of April 2014, Citizens has reduced its number of policies to 940,000, showing significant progress in reducing liability.
- *Land use planning.* One exception to Florida's consistent implementation of free-market policies has been in land use planning. Florida's Growth Management Act of 1985 made the state one of the most stringent in terms of statewide land use controls. Though the Florida government ended state oversight of land use planning in 2010, the legacy of statewide land use planning remains: many local governments still enforce plans and Regional Planning Councils have taken on many features of the defunct Department of Community Affairs.

POLICY RECOMMENDATIONS

Though it has been following a fiscally conservative path, the Florida legislature can make decisions in several areas that could further improve the state's fiscal outlook:

- *Refrain from taxing Internet sales.* Joining the Streamlined Sales Tax project would be a bad move for Florida because it would place Florida's main source of revenue in the hands of a multistate consortium, with the ability to change direction without regard to Florida's needs. The status quo is a better option than adopting such a plan.
- *Reform the pension system.* Florida should shift to a defined contribution system before it faces the unfunded liability problems that plague so many other governments. The plan should shift entirely to private firms after the last defined benefit pensioner receives his or her last check.

- *Reduce state liability for property insurance.* The state-owned property insurer has taken on so much liability that another major storm could bankrupt it. Florida should continue to reduce state-provided coverage, as the current administration has been doing.
- *End government land use planning.* Though Florida has abolished the Department of Community Affairs, local Regional Planning Councils carry on the failed system's central planning policies. The state should remove these barriers to business and allow a market-oriented system to emerge.
- *Abolish burdensome occupational licensing schemes.* Florida should eliminate burdensome occupational licensing schemes that erect barriers to entry for new businesses.