Florida's Fiscal Policy: Responsible Budgeting in a Growing State

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Abstract

Florida's state government stands out for its responsible fiscal policy, for maintaining a balanced budget, and for keeping taxes, expenditures, and government employment relatively low. In an era of government growth, Florida's taxes and expenditures per capita and state government employment per capita have all been falling for the past two decades. During the recession that began in 2008, Florida cut state spending significantly to keep the budget balanced rather than relying on tax increases, a strategy consistent with its fiscally conservative policies. In some areas, however, Florida's government has a bigger footprint. Florida places relatively high regulatory burdens on its citizens and businesses, and the government is a major residential property insurer in the state. Some institutional factors that might influence Florida's fiscal policies are its legislature term limits, its lack of a state personal income tax, and the ability to amend the state constitution through citizen initiatives.

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Florida's Fiscal Policy

Responsible Budgeting in a Growing State

Randall G. Holcombe

In an era of rampant government irresponsibility and excess, the state of Florida stands out for having a government that has been fiscally responsible even while exhibiting substantial growth. Florida's population, 2.8 million in 1950, grew to 9.7 million by 1980 and to 19.3 million by 2013. Florida rapidly evolved from a largely rural state with tourism in coastal areas to the fourth-most-populous state in the nation, in no small part because of the spread of air conditioning.[1] The state that had been a desirable winter tourist destination became more attractive year-round, for both tourists and retirees. Warm weather is not its only attraction, however. Florida has been a fiscally conservative state with neither a personal income tax nor an estate tax. Furthermore, it has had, overall, low state taxes and low state government spending. Florida provides a good model for state government fiscal responsibility.

Florida is one of the very lowest states in state government expenditures per capita[2] and in the number of state government employees per capita.[3] In addition, budget figures demonstrate that over the last two decades Florida's state government has become increasingly lean. While some Floridians view the state's small government as an advantage, others view it as a liability. The appropriate size and role of state government has been an issue for decades.

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[1] Population data in this study is from the United States Census Bureau. Florida trails California, Texas, and New York in population, but it is close enough to New York that the two are almost tied.
[2] For fiscal year 2011, Florida was the second-lowest state in state expenditures per capita—with only Nevada below it—and spent only 65 percent of the national average. See "Total State Expenditures per Capita," Kaiser Family Foundation website, accessed August 26, 2014, http://kff.org/other/state-indicator/per-capita-state-spending/.
[3] Florida ranks lowest among the states in state government employees per capita. Amy Sherman, "Alex Sink Says Florida Is Last on Two State Employee Measures," *PolitiFact*, *Tampa Bay Times*, September 14, 2010, http://www.politifact.com/florida/statements/2010/sep/14/alex-sink/alex-sink-says-florida-last-two-state-employee-mea/.

And while measuring state government by taxes and expenditures paints a picture of lean government in Florida, in other areas, the government has a bigger footprint. One of those areas is regulation, and in particular land use regulation. Another is property insurance. Florida's state-operated insurance company is the state's largest issuer of homeowners insurance policies. These issues are discussed in more detail below.

Table 1 (page 79) shows Florida's substantial population growth over the decades. The state's population approximately doubled from 1960 to 1980, and nearly doubled again from 1980 to 2010. Meanwhile, Florida's per capita income growth pushed it from below the median—Florida ranked 30th in 1950—to around the median. Florida ranked 17th in per capita income in 1990, but has since fallen; it was 24th in 2010. Florida is at a slight disadvantage in per capita income rankings because the state has attracted a large number of retirees who tend to have above average wealth but below average incomes because they are no longer working. Also, the state's economy is heavily dependent on tourism, which tends to support lower-wage service industry employment. The space industry, which has more high-skilled and high-wage jobs, has continually scaled back since the moon landing in 1969, and the termination of the space shuttle program put a further dent in that sector.

Florida is also home to a number of military bases, which have a significant economic impact, especially in the panhandle. The military and space programs subject the Florida economy to potential vulnerabilities and uncertainties as a result of the federal budgeting process. Looking into the future, uncertainties about the Social Security and Medicare programs might also have an impact on the state's economy. Florida's political leadership has an interest in expanding employment in higher-tech and higher-wage industries, including medical technology and the motion picture industry,[4] and while the state has attracted a few firms, the far-right column in table 1 shows that the state has not moved up in the state per capita income rankings. High-tech and high-wage jobs typically require an educated workforce, so the quality of educational institutions can affect Florida's ability to attract high-tech employers. Silicon Valley, Austin, and Boston are often cited as areas that have attracted high-tech employment because of high-quality universities. If there is a link between having high-quality universities and attracting high-tech jobs, Florida's government has not nurtured it. In fact, Florida has substantially reduced its funding for higher education in recent years.

In reality, state government policies cannot do much to attract high-wage jobs,[5] but government policies can have the effect of limiting employment opportunities. In this regard, Florida's economic policies have done most things right. Florida has no personal income tax, it is a low-tax state in general, it is a right-to-work state, and at the state level, Florida has been very fiscally conservative. One area in which Florida has not been so jobs friendly has been occupational licensure; its occupational licensure laws are among the most burdensome in the nation. Another area is land use policy. In Florida, finding a site and then building on it has been an uncertain proposition, so businesses looking to move or expand have sometimes considered Florida but then located elsewhere because they can start construction right away in other states. As a state, Florida has often projected an antigrowth attitude. Whereas other states seek out and welcome new businesses, Florida has sent more of a mixed message.

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[4] The state pursues high-tech jobs through Enterprise Florida, a public-private partnership. For policy initiatives in this regard, see the Enterprise Florida website at www.enterpriseflorida.com/industries/information-technology.

[5] There is a substantial literature that looks at the effects of government incentives on economic performance, with much of it showing little or no impact. Two examples are Daniele Bondonio and Robert T. Greenbaum, "Do Local Tax Incentives Affect Economic Growth? What Mean Impacts Miss in the Analysis of Enterprise Zones," *Regional Science and Urban Economics* 37, no. 1 (January 2007): 121–36; and Alan H. Peters and Peter S. Fisher, *State Enterprise Zones: Have They Worked?* (Kalamazoo, MI: Upjohn Institute, 2002).

Whether states should even engage in policies meant to target new businesses and jobs is controversial.[6] Tax incentives and other concessions (which Florida does often offer) mean that services to support the new employment will have to be paid for by others. A better policy is to provide a favorable business climate for everyone through low taxes and low regulatory barriers and through the competent provision of government services and infrastructure. This levels the playing field and gives businesses already in the state the same incentives to expand as it gives to newcomers to move in.

Although specific policy recommendations appear toward the end of this study, the main purpose here is to review Florida's fiscal history to see what lessons it might have to offer. Florida's state government has been fiscally conservative and fiscally responsible, and this fiscal responsibility at the state level sets Florida apart from many other states. This study analyzes Florida's fiscal policy in some detail, partly to gain an understanding about what sets Florida apart, and partly to see how Florida has been able to maintain fiscal responsibility in an era when many states have not.

Politics and Policy: An Overview

In an era when fiscal irresponsibility in state governments often makes the news, led by big-government, high-income states like California[7] and Illinois,[8] there are ready explanations for fiscal irresponsibility. One cannot say that California and Illinois, as examples, are too poor to

[6] A substantial literature weighs against the practice. For a comprehensive study, see Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives," *Journal of the American Planning Association* 70, no. 1 (2004): 27–37. See also Dagney Faulk, "Do State Economic Development Incentives Create Jobs? An Analysis of State Employment Tax Credits," *National Tax Journal* 60, no. 2 (June 2002): 263–80, and the literature cited in that article.
[7] Jessica Calefati, "California's 'Wall of Debt' Is Only a Slice of the Problem," *San Jose Mercury News*, January 26, 2014, www.mercurynews.com/california/ci_24998205/californias-wall-debt-is-only-slice-its-liability.
[8] "Illinois' Unfunded Pension Liability Rose in FY 2013–14 Report," *Reuters*, December 4, 2013.

afford the governments that other states have. These high-income states have, through a democratic decision-making process, made spending commitments that strain their capacity to finance them. The problem is not too little money, but rather too little government restraint in committing to present and future expenditures. An understanding of the political decision-making process helps illuminate the reasons why governments are prone to promise more than they can afford. The bottom line is that citizens want government to provide them with benefits, but they don't want government to tax them to pay for those benefits.

Depicting government as a decision maker is an oversimplification because governments do not make decisions; individuals do. To really understand the process of government decision making, one has to understand the incentives of all the individual decision makers within the democratic process. While it is true that elected officials have an incentive to promise more than they can deliver, they can only do this if voters buy into those promises and support those elected officials. Consider the incentives for voters.

Voters have little incentive to become informed when they vote in general elections. They often vote to express support for a general viewpoint on government rather than as a judgment on the merits of particular policies.[9] People who think government should do more to help people, to preserve the environment, or to provide a good educational system will tend to vote for candidates who express similar viewpoints, regardless of whether the specific policies they advocate can accomplish those goals—and typically campaign platforms are not specific policies at all but expressions of aspirations for desirable outcomes, because that is the type of

[9] The idea that voters have little incentive to become informed, and so are often rationally ignorant regarding candidates and policies, is discussed by Anthony Downs in *An Economic Theory of Democracy* (New York: Harper & Row, 1957). Geoffrey Brennan and Loren Lomasky discuss expressive voting in *Democracy and Decision: The Pure Theory of Electoral Preference* (Cambridge: Cambridge University Press, 1993).

platform that motivates voters.[10] Politicians' campaign platforms are not backed by warranties, like goods sold in the market. Yet often, when voters cast their expressive votes in favor of people who want good outcomes but whose policies do not produce them, voters will go right back to the polls and vote for them again, hoping for a better outcome next time around.

Casting a vote is not like buying something in a store. When customers buy something, they exchange money for a good. If a customer later decides the good is not worth the money, it is too late because he or she has already paid the price—so a wise customer will learn about a good before purchasing it. Voters, on the other hand, know their votes are unlikely to be decisive. The outcome of an election will be the same regardless of how they cast their one vote, so voters will not be as informed as customers in a market, and they may vote for vague promises and aspirations rather than concrete policies. Indeed, because of this, most political platforms do not consist of concrete policies; rather they are a list of goals the candidate believes voters will support.

One place this dynamic has played a role is in Florida's constitutional amendment process. Florida's constitution has seen some questionable amendments, which may be because voters are often uninformed and because they often vote expressively for ideas that sound good rather than for actual policies that can make them better off. When one recognizes the incentives for voters, serious questions arise about the desirability of having voters determine whether particular public policies should be implemented. Throughout this study, several constitutional amendments will be discussed that illustrate this point.

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[10] See Downs, *Economic Theory of Democracy*. Brennan and Lomasky explain that voters often cast ballots to express preferences for general ideas and preferences for desirable outcomes rather than specific policies that can actually accomplish those outcomes in *Democracy and Decision*. Bryan Caplan takes that argument a step further to explain why voters often make their voting decisions based on irrational beliefs in *The Myth of the Rational Voter* (Princeton: Princeton University Press, 2007).

Because voters tend to favor elected officials who promise them benefits but do not like elected officials to tax them to pay for those benefits, government policies are often shortsighted. Unfunded pension liabilities are a good example. Legislators may vote to offer generous pensions to public employees, promising them a benefit now that will be financed by costs that will only come in the future. Politically, it is easier to do this than it is to promise a generous pension now and start setting aside money to pay for it now. Current officials get credit for the benefits they provide to current state workers, but the costs in terms of unfunded liabilities will land in the laps of future officials.[11]

States with the largest unfunded pension liabilities are also states that have the highest levels of state government spending, providing some evidence that unfunded liabilities are growing to finance current expenditures.[12] These states shift the cost of current benefits onto future taxpayers, a practice that has gone on long enough that those future costs are hitting many state governments now. Florida makes an interesting case study here because it has managed to limit its unfunded pension liabilities more than most states. Florida is fourth-lowest among the states in unfunded liabilities and at the very bottom in unfunded pension liabilities.[13] The Pew Center on the States says Florida "consistently has funded its actuarially required contribution and follows conservative policies in managing its obligations."[14]

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[11] For a discussion of the potential problems associated with states' unfunded liabilities, see H. P. Brixi, "Government Contingent Liabilities: A Hidden Risk to Fiscal Stability," *Journal of Public Budgeting, Accounting & Financial Management* 13, no. 4 (2001): 582–623.

[12] See Cynthia A. Sneed and John E. Sneed, "Unfunded Pension Obligations as a Source of Fiscal Illusion for State Governments," *Journal of Public Budgeting, Accounting & Financial Management* 9, no. 1 (Spring 1997): 5–20. States with the highest levels of expenditures are also the states that have tended to run into the more substantial fiscal difficulties. Sharon N. Kioko, "Reporting on the Financial Condition of the States: 2002–2010," *Journal of Public Budgeting, Accounting & Financial Management* 25, no. 1 (Spring 2013): 165–98.

[13] John Hood, "The States in Crisis," *National Affairs* 6 (Winter 2011): 58–59.

[14] *The Trillion Dollar Gap: Underfunded State Retirement Systems and the Roads to Reform* (Washington, DC: Pew Center on the States, 2010), 40, http://www.pewtrusts.org/en/research-and-analysis/reports/2010/02/10/the-trillion-dollar-gap.

While Florida has avoided shortsighted policies in managing its state pension system, this has not been true for all its government policies. The state is exposed to a substantial liability because of its ownership of the state's largest homeowners insurance company. In 2006, it was easy, but shortsighted, to promise homeowners lower insurance rates by expanding the state's coverage with a cost that would only come due in a future year with major hurricanes. The state's taxpayers have been fortunate that no hurricanes have made landfall in Florida since 2006, but history shows that such a long span between hurricanes is anomalous. Florida's land use policies also have often been driven by feel-good legislation that has been inadequate to accomplish the long-run goals voters had hoped for when the laws were passed. The legislature promised policy outcomes that voters desired, but the legislation they passed did not accomplish those outcomes. These actions raise the question why Florida has managed to avoid shortsighted policies in some areas but adopted them in others.

One answer is that interest group politics plays a substantial role in public policymaking, as evident in a number of areas, including Florida's insurance market and land use policies. Concentrated interests are often able to steer public policy to favor them over the general public, which is one factor that leads public policies to sometimes work at odds with the public interest.[15]

Another problem with government expenditures more generally is that there is no good way to weigh the cost of a program against the benefits it provides for citizens. With market transactions, every time customers make purchases they are demonstrating their belief that the benefit of what they have purchased exceeds the cost; otherwise they would not make the purchases. If individuals miscalculate and regret a purchase later, they bear the cost, which serves as a lesson to be more careful next time. Most government output is not sold, however, so

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[15] This idea was explained well by Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge: Harvard University Press, 1965).

the beneficiaries of government programs never weigh the benefits against the cost. As long as the benefit is greater than zero, people will use those programs. There is no market test that can assure people that the benefit of any specific government expenditure exceeds the cost.[16]

While governments often undertake benefit-cost analyses to try to estimate whether the benefits of programs are greater than their cost, those estimates are inevitably inaccurate measures of the benefits because there is no way for analysts to know the true value of the benefits. This is the knowledge problem that faces government: without market prices, the value of government output can never be known for sure. Because of the knowledge problem, special interests can overstate the value of the benefits they receive, and their concentrated political power is often sufficient to steer benefits their way at a cost to the general public. Special interests well understand the benefits they get, while the general public is not well-equipped to recognize the costs imposed on them for the benefit of special interests.

Ultimately, public policy decisions are made based on the political power of those who favor them, and frequently the result is policies that are shortsighted, that favor special interests, and that often are inefficient because, without market prices, there is no good measure of their value. These issues are reasons why a reliance on markets and private-sector activity leads to greater prosperity than a reliance on government. But in cases where people perceive problems with a reliance on markets, there is a demand for government activity.

Most Americans say they favor a market economy and a capitalist economic system, but they also say there is a need for government to support and regulate the market and to provide some specific goods and services. There is popular support for government courts and

[16] A theoretical foundation for these ideas can be found in Ludwig von Mises, *Economic Calculation in the Socialist Commonwealth* (Auburn, AL: Mises Institute, 1990); Friedrich A. Hayek, "The Use of Knowledge in Society," *American Economic Review* 35, no. 4 (September 1945): 519–30; and Israel M. Kirzner, *Discovery and the Capitalist Process* (Chicago: University of Chicago Press, 1985).

law enforcement, roads and other infrastructure, schools, and more. Recognizing potential problems that can arise in the absence of government, there is strong democratic support for government taxes and expenditures. But, as just noted, there are problems with government programs too. Florida has not avoided these problems entirely, but it appears to have dealt with them better than most states, so in this context it is worth reviewing Florida's fiscal history to see how.

Florida's Term-Limited Legislature

One factor that may have played a role is legislative term limits. In 1992 Florida's voters approved a constitutional amendment limiting state officeholders to eight years in an elected office. After the eight-year limit, the officeholder is prohibited from appearing on the ballot for that office in the next election. This severely limits the ability of state legislators to become career politicians, which can have two effects that point toward fiscal conservatism.[17] First, politicians have less of an incentive to favor legislation that is designed to build political support, because they know their political careers are term-limited in any event. Second, term limits may affect the type of person who runs for statewide office because the elected office cannot turn into a permanent job.

Term limits do not necessarily end an officeholder's political career, of course, because the officeholder can run for another office once the term limit is reached. But term limits will

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[17] Evidence on this point is mixed. Dale Bails and Margie Tieslau find that legislative term limits reduce expenditures in "The Impact of Fiscal Constitutions on State and Local Expenditures," *Cato Journal* 20, no. 2 (2000): 255–77; while Abbie Erler finds that term limits increase expenditures in "Legislative Term Limits and State Spending," *Public Choice* 133, nos. 3/4 (December 2007): 479–94. Jeff Cummins finds mixed results in "The Effects of Legislative Term Limits on State Fiscal Conditions," *American Politics Research* 41, no. 3 (May 2013): 417–42. For an overview of institutional effects on state expenditures, see Matthew Mitchell and Nick Tuszynski, "Institutions and State Spending: An Overview" (Working Paper No. 11-39, Mercatus Center at George Mason University, Arlington, VA, October 2011), http://mercatus.org/publication/institutions-and-state-spending.

end most political careers because the opportunities for advancement are limited. Florida's House of Representatives has 120 members; its Senate has only 40. Most representatives, therefore, cannot move to the Senate. Opportunities to move to the US Congress are even more limited, partly because there are fewer seats (Florida has 25 representatives in the US House of Representatives) and partly because those federal offices are not term-limited and incumbents are almost always reelected. One effect of term limits might be that people who run for elected office are less interested in their own careers and more interested in furthering public policy that conforms to their vision of the public interest.[18] Most members of the legislature will be out of office in a few years because of term limits, and will be subject to the laws they have passed when in office. Looking at the fiscal responsibility that characterizes Florida—compared to many other states, at least—the conjecture that term limits has had an effect has an intuitive appeal. The legislature and governor's office have been dominated by self-proclaimed fiscal conservatives in recent decades, and they have been fiscally responsible in their budgetary decisions.

Readers should be reluctant to uncritically accept the hypothesis that Florida's fiscal conservatism is a by-product of term limits, but some evidence does point in that direction. It does appear that the term limits that have been in place for more than a decade have coincided with a leveling out in state expenditure growth, as figures shown in the tables below illustrate. It is plausible that term limits have had the effect of keeping the state from pursuing the fiscally irresponsible policies that characterize many other states, but the topic needs further research.[19]

[18] See John M. Carey, Richard G. Niemi, and Lynda W. Powell, *Term Limits in the State Legislatures* (Ann Arbor: University of Michigan Press, 2000); and Michael Smart and Daniel M. Sturm, *Term Limits and Electoral Accountability* (London: Center for Economic Performance, London School of Economics, 2006).

[19] Florida is one of 15 states that have term limits for their legislatures. The others are Maine, California, Colorado, Arkansas, Michigan, Ohio, South Dakota, Montana, Arizona, Missouri, Oklahoma, Nebraska, Louisiana, and Nevada.

Amending Florida's Constitution

Differences in the institutional structures of governments can make a difference in the types of policies and programs they implement. One institution that has influenced public policy in Florida is the constitutional amendment process. Florida's constitution allows several methods of proposing an amendment, including by the legislature, through a citizen initiative, and by a commission. There is little restriction on the content of amendments that can be added to the constitution. For example, amendments have specified the minimum size of pens for pregnant pigs in Florida and the types of nets that can be used for fishing in Florida's waters, and have mandated that Florida build a high-speed rail network linking its largest cities (this mandate was later repealed by another amendment). All appropriately proposed amendments, regardless of their origin, must be presented to the voters and require 60 percent approval to be added to the constitution.[20]

Often, the legislature's motivation for putting amendments on the ballot is popular demand. One reason the legislature may respond to popular demand and put an amendment on the ballot is that the legislation can preempt a citizen initiative attempt, with provisions that are more favorable to those in the legislature. One example is Florida's constitutionally mandated revenue limitation, which was put on the ballot by the legislature and approved by the voters in 1994. A citizen group had announced its intention to collect signatures to put a revenue limitation on the ballot. This action prompted the legislature to design its own revenue-limitation amendment, which led the citizen group to drop its attempt. The legislature's constitutional revenue limitation was much weaker than the one discussed by the citizen group, so although the state does have a constitutional cap on state revenues, the cap has grown faster than the actual budget and the cap has never been

[20] The requirement of 60 percent approval of the voters is itself a result of an amendment that increased the threshold for approval from 50 percent.

binding.[21] The weaker legislative amendment preempted the citizen initiative, but it is likely that the legislature would not have acted at all were it not for the threat of the citizen initiative.

The citizen initiative was implemented with the new Florida constitution adopted in 1968. To put a citizen initiative amendment on the ballot, it must receive voter signatures equal to 8 percent of the votes cast in half of the state's congressional districts in the preceding presidential election and also 8 percent of the total votes cast statewide. The bar is fairly high, but several citizen initiative amendments do appear every two years. That high bar explains why amendments proposed by the legislature can sometimes preempt attempts to move forward with a citizen initiative.

Florida's constitution also specifies that every 20 years a Constitutional Revision Commission will be formed with members appointed by the governor, the Speaker of the House, and the President of the Senate. That commission can also place amendments on the ballot. In addition, a Taxation and Budget Reform Commission is formed every 20 years, appointed by the same elected officials and empowered to place amendments related to tax and budget items on the ballot. The two commissions are staggered so that one or the other meets every ten years. The Constitutional Revision Commission was established in Florida's new 1968 constitution, and the Taxation and Budget Reform Commission was created by a constitutional amendment placed on the ballot by the legislature in 1988.

Members of both these commissions are appointed by elected officials, but members of the Taxation and Budget Reform Commission may not be elected officials themselves. This

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[21] I have analyzed this issue in Randall G. Holcombe, "Tax and Expenditure Limitations: Issues for Florida" (Policy Report No. 32, James Madison Institute, April 2001). Florida is not unique in having a tax or expenditure limit that has no effect. Ronald J. Shadbegian argues that, in general, these limits are ineffective in "Do Tax and Expenditure Limitations Affect the Size and Growth of State Government?," *Contemporary Economic Policy* 14, no. 1 (January 1996): 22–35.

commission was constituted this way to insulate it from direct pressure from voters. While politicians do not announce their strategies explicitly, one reasonable conclusion is that the Taxation and Budget Reform Commission was established to try to amend Florida's constitution to allow personal income taxation. Personal income taxation is prohibited by Florida's constitution, and it would be enough of a political lightning rod that elected officials would avoid proposing it. The legislature would not place such an amendment on the ballot, for example, and the Constitutional Revision Commission might shy away from it too, if its membership included elected officials. The thought was that a commission composed of people who were not elected officials could ignore the preferences of the voters and place an amendment on the ballot to allow personal income taxation. So the Taxation and Budget Reform Commission was created even though the similar Constitutional Revision Commission was already a part of the constitution.

In practice, the income tax has not been proposed, and ironically, those who support personal income taxation have worked to keep it off the ballot while those who are opposed have not objected to having an amendment on the ballot. Why? Voters would certainly vote against it, and the proponents of a personal income tax do not want to see an income tax amendment soundly defeated while the opponents of it do.

Because Florida's constitution has so many avenues for amendment, and because there is little restriction on the contents of the amendments, many items end up in Florida's constitution that are really policy issues rather than constitutional issues. This can have the effect of constraining the legislature: if a powerful interest with sufficient financial backing to collect enough signatures wants to implement a policy and the legislature resists, the group can try to amend the constitution. That is how pig pens, fishing nets, and high-speed rail got into the constitution, along with property tax limitations (which are actually a constitutional constraint on government's ability to tax). A citizen initiative amendment to legalize medical marijuana was narrowly defeated in November 2014, pushing the legislature to consider the issue in the 2015 session.

The Division of Political Power

Another institutional factor that may come into play in Florida is that political power in the legislature is heavily concentrated in the Speaker of the House and the President of the Senate. Compared to the US Congress, for example, the Florida leaders have much more power relative to the other members of the legislature. The President and Speaker have complete control of the legislative agendas in their chambers, so members can only get their proposed legislation heard if the President or Speaker agrees. Technically, all employees in the House are employees of the Speaker and all employees in the Senate are employees of the President. It has happened in the past that a chamber leader has fired members of a legislator's staff in retribution for a vote that the chamber leader did not approve.

The result of this concentration of power is that individual members have less of an ability to promote legislation on their own compared with legislators in the US Congress. This institutional difference may limit passage of special-interest legislation in Florida (although there is still plenty of special-interest legislation introduced). At a minimum, it steers legislation toward the preferences of the Speaker and President.

As mentioned earlier, both chambers of the Florida legislature have term limits. Since the creation of term limits, the chambers have chosen a President and Speaker to serve for two years from among members who are beginning their final two years before their term limits. This means that the leaders of each chamber have already served for six years in their chambers before rising to lead, and know they will not be eligible for reelection to the same office. This arrangement removes incentives to promote legislation in order to gain support for reelection and it may be a factor in the fiscally responsible decisions made in the legislature for the past few decades.

Florida's Budget History

Appropriations

Florida's fiscal conservatism over the past two decades shows clearly in its history of appropriations. Table 2 (page 80) shows the state budget from the 1983/84 budget year through 2014/15. In a little over two decades, the budget grew from about $12 billion to $77 billion, while Florida's population almost doubled, growing from 10.7 million to 19.5 million. The first column in table 2 gives total appropriations without adjustment for inflation. The second column gives appropriations adjusted for inflation and still shows Florida's budget nearly tripling. Dividing these adjusted numbers by the Florida population of the same budget year gives the real per capita appropriations in the third column. The results show state government spending per person growing from $2,638 in the 1983/84 budget to $3,951 in the 2014/15 budget.

Looking at the final column in table 2, the percentage change from the previous budget year, one thing that jumps out is that the amount of spending from year to year is very volatile. In these two decades, there are two years in which the budget increased by more than 10 percent and several more where it increased by more than 7 percent; there are also several years where the budget declined by more than 8 percent. This volatility is driven by three factors.

First, the Florida Constitution requires a balanced state budget, and the state government has been very diligent about meeting this requirement. Before budget passage, state economists meet in a Revenue Estimating Conference that projects the next year's state government revenues. The process has been nonpolitical and tends to produce unbiased estimates.[22] With revenue estimates in hand, the legislature produces a budget that is close to those revenue estimates. If, during the budget year, revenues fall short of their estimates, Florida's governor and the state cabinet prorate the budget—typically shrinking agency budgets across the board—to conform to the new estimates. Thus, when revenue shortfalls have appeared, Florida's governors have cut budgets midyear to maintain a balanced budget.[23]

A second reason for volatility in the budget is that, for the past two decades, Florida's state government has been very reluctant to increase tax rates or create new taxes. The last major tax increase in Florida came in 1988, when the state sales tax rate was increased from 5 percent to 6 percent amid a great deal of controversy. Before the rate increase, the legislature extended the sales tax to services in 1987, which it subsequently repealed the same year, then replaced the services tax with the 1 percent increase in the overall rate.[24] Since then, largely because of a consistently fiscally conservative legislature, the state has had no major tax increases. Lawton Chiles, who served as governor from 1993 to 1998, was Florida's last elected Democratic governor,[25] and the three Republican governors since then—Jeb Bush, Charlie Crist, and Rick Scott—have all been fiscally conservative and had a fiscally

[22] While the estimates tend to be unbiased, they also tend to lag behind actual changes, so they can be overly optimistic during downturns and overly pessimistic during upturns. This is common to other economic forecasters as well, so it is difficult to find fault with the Revenue Estimating Conference for not being able to more accurately foresee the future.

[23] Note that the appropriations in table 1 are for the budget passed for the upcoming budget year, and that sometimes spending has been less than appropriated because of midyear cuts.

[24] For more background information, see Walter Hellerstein, "Florida's Sales Tax on Services," *National Tax Journal* 41, no. 1 (March 1988): 1–18.

[25] This is not quite true because Chiles died December 12, 1998, after Jeb Bush had been elected to succeed him but before the end of his term of office. Lieutenant Governor Buddy McKay assumed the governor's office until Bush was sworn in on January 5, 1999.

conservative Republican legislature to work with.[26] Elected officials consistently balanced the budget and opposed tax increases.

The third factor that produced pronounced variability in the balanced budgets was that the legislature always found a way to spend whatever revenues were forecast to come in, so in years with big revenue increases, expenditures rose. There have been some significant tax cuts during the past two decades, which are discussed below, but for the most part, when additional revenues materialized, they were spent.

Figure 1 (page 93) provides a striking illustration of the fiscal conservatism Florida's government has exhibited beginning in the early 1990s. Adjusted for inflation, the budget is actually smaller per person in 2014 than it was 20 years earlier. Few governments can claim such a record.

The details in table 2 illustrate the effect on appropriations of the three factors noted earlier. From 2000/01 to 2006/07, the budget increased by 9.9 percent, to $4,821 per person, its highest level ever. This was during the housing boom, and as described in detail below, a substantial amount of Florida's revenues come from sales taxes and documentary stamp taxes that are collected when the title to real estate is transferred. Sales tax revenues were affected by the housing boom because in Florida, construction materials are sales taxable. Revenues went up, and expenditures went up along with increased revenues. Then the budget decreased by 18 percent from its peak in 2006/07 to 2014/15 because of the decline in revenues after the housing bubble burst. Governments often raise tax rates when revenues fall, but with some minor exceptions, that did not happen in Florida.[27]

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[26] Readers who follow Florida politics will know that Crist, who presided over the 2007/08 to 2010/11 budgets, left the office after one term to pursue an unsuccessful run for the US Senate, changing his party affiliation from Republican to Independent and—after the election—to Democrat. Crist ran again for governor in 2014 as a Democrat against incumbent Republican governor Rick Scott. Scott was reelected. Note from table 1 that the state's budget fell substantially during Crist's tenure and he did not oppose the spending declines.

[27] An example of a minor exception was an increase in registration fees for motor vehicles in 2009.

Florida's state government budget is obviously revenue driven.[28] The last year of the housing boom, the 2006/07 budget increased by nearly 12 percent in a single year. After the collapse of the housing market, the budget followed that increase with two consecutive years of decreases that exceeded 8 percent. The budget shows clear cyclical variability. During upturns in the economy the budget increases substantially due to the infusion of revenues; during downturns the budget shows major cuts. This raises clear questions about ways to address that cyclical variability. The two most commonly suggested ways have been to expand Florida's tax base to add a personal income tax—Florida does not currently have one—and to establish a rainy day fund to smooth expenditures over the revenue cycle. Both policy options will be considered further below, after looking in more detail at Florida's tax structure.

Table 3 (page 81) shows appropriations as a percentage of gross state product (GSP). There is a substantial increase from the early 1980s up through the early 1990s, when appropriations as a percentage of GSP rose from below 9 percent to well over 11 percent. After peaking at 11.86 percent of GSP in 1994/95, appropriations began a downward trend, falling to as low as 8.79 percent in 2008/09 before moving back to above 9 percent. Table 3 clearly shows a two-decade downward trend in appropriations as a share of GSP, but it also shows that appropriations as a share of GSP remain above where they were in the early 1980s. State government expenditures as a share of income showed a consistent growth from the early 1980s through the early 1990s before the recent two-decade period of fiscal conservatism and contraction. Those trends are clearly evident in figure 2 (page 93), which graphs the right-most column of table 3. In an era in which the term "spending cut" is sometimes used to describe a reduction in the rate of increase in government

[28] Andrea Louise Campbell and Michael W. Sances note that many states raised taxes during the economic downturn beginning in 2008 in "State Fiscal Reform during the Great Recession," *The Annals of the American Academy of Political and Social Science* 650, no. 1 (November 2013): 252–73.

spending, it is worth emphasizing the substantial reduction in the actual spending of Florida's state government, after adjusting for inflation and population growth.

Term Limits: A Coincidence?

The constitutional amendment mandating term limits for Florida's legislators passed in 1992. As discussed above, it prohibited incumbents who have held the same office for the preceding eight years from appearing on the ballot for reelection to that office. The amendment was supported by 76.8 percent of the voters. The passage of the amendment meant that, from that time forward, legislators knew they could have, at most, eight more years in their current office. Looking back at figure 1, it is at about that time that inflation-adjusted state expenditures per person leveled off—a trend that has continued into the present. This development offers evidence that term limits are indeed a contributing factor to the fiscal conservatism Florida's state government.

Throughout this section, credit has been given to Florida's state government for its fiscal conservatism, and it appears appropriate to credit the government in general rather than specific individuals because of the frequent changes in elected officials. During the period in which the growth in appropriations slowed, Florida has had four governors, and as always, the President of the Senate and Speaker of the House have changed every two years. Political leaders have changed frequently, but the political leadership has remained fiscally conservative. Governments do not make decisions—people do—but they do so within an institutional framework that has an effect on the decisions they make. This suggests that Florida's government institutions, which have remained relatively constant, rather than the individuals in power, who have not remained constant, are the driving force behind Florida's fiscal conservatism. Florida's voters must play a role also, but despite its solidly Republican legislature, Florida is typically seen as a swing state with more middle-of-the-road preferences, and in presidential elections Florida tends to have close results.[29] The leveling off of real per capita expenditures after the passage of term limits suggests that the institutional change did have an effect.

State Government Employment

A by-product of Florida's fiscal conservatism is that the state has been holding the line on state government employment. Florida's history of state government employment over two decades (table 4, page 82) shows that Florida had fewer employees in 2012 than it had in 1997. There was some increase in the first few years of the 21st century, peaking at 191,215 in 2006, but then government employment fell by more than 5 percent to 181,262 in 2012.

The state's population was growing throughout that time, and the column second from the right shows a fairly steady decline in state employees as a percentage of the population. In the early 1990s the state employed 1.22 percent of Floridians, and even when state employment peaked in 2006, state employment as a percentage of the population had declined to 1.05 percent. By 2012, state employment had fallen to 0.95 percent of the population.

The downward trend is clearly apparent in figure 3 (page 94), which graphs the numbers from table 4. State government employment as a percentage of Florida's population has shown a consistent downward trend since the mid-1990s. Again, note that this is about the time that term limits took effect for Florida's legislators. The same trends do not show up when looking at combined state and local government employment as a percentage of the population in figure 4

[29] Florida was one of nine swing states in 2012. "2012 Swing States," *Politico*, last modified July 2, 2013, http://www.politico.com/2012-election/swing-state/. Though the site reports Florida as leaning toward Romney in the 2012 election, President Obama actually won the state, receiving 50.01 percent of the votes to Romney's 49.13 percent. Florida has one Democrat and one Republican US Senator, and has 17 Republicans and 10 Democrats in the US House of Representatives.

(page 94). There is only a slight downward trend and considerably more variability in that series. Thus, while state government employment has fallen over those two decades, state plus local employment has been relatively constant. In keeping with the above discussion on term limits, it is worth remarking that most local government officials do not have term limits.

Florida is well below the national average in both state government employment and state and local government employment. In 2012 the national average was 1.38 percent of the population employed by state governments, compared to Florida's 0.95 percent. Looking at state plus local government employment, the national average was 5.19 percent, compared with Florida's 4.65 percent. While some might compare Florida's level of state and local government employment with the national average to argue that Florida's government is too small, there is no virtue in being average. The data presented here make it apparent that Florida's political leadership has concluded, at the state level, anyway, that smaller government is preferable. There is a correlation between state expenditures and state employment, so readers should not be surprised, after looking at the budget numbers, to find state employment following a similar trend. A comparison of figures 2 and 3 shows these similar trends.

Florida's Tax Structure

Florida is one of seven states with no personal income tax,[30] and there is very little chance that will change because Florida's constitution prohibits the state levying one, and a constitutional amendment would require voter approval. Voter approval of a personal income tax is so unlikely that even those who would strongly favor a state personal income tax do not suggest it because it would be both politically unpopular and politically infeasible. So, the absence of a

[30] The others are Alaska, Nevada, South Dakota, Texas, Washington, and Wyoming. Tennessee and New Hampshire do not tax wage income but do tax interest and dividend income.

state personal income tax is not a political issue in Florida, but it does have a major impact on Florida's tax structure when compared to most other states. Florida's biggest source of tax revenue by far is its sales tax.

Table 5 (page 83) shows tax revenues, in millions, for Florida's major tax revenue sources. There is a substantial increase in dollar amounts over time, partly due to inflation and partly to Florida's population growth. Recalling that total state appropriations for 2013/14 were $74 billion, tax revenues of $48.7 billion in that year mean that only about 66 percent of appropriations are financed by taxes. The vast majority of the other third of the budget is financed by federal grants.

In nominal terms, Florida revenues had always increased year-over-year up through the 2005/06 fiscal year. Then the force of the recession, coupled with the collapse in the housing market (which was particularly severe in Florida), pushed total tax revenues from $46.2 billion in 2005/06 to $38.7 billion in 2008/09, a decline of 16 percent. The decline is noteworthy in light of the fact that for at least a quarter of a century before the decline, total tax revenues never had a year-over-year decline.

A big contributor to the decline was the decrease in sales tax collections—by far the largest tax revenue source in Florida—which fell from $21.9 billion in 2006/07 to $18 billion in 2009/10. In terms of percentage, though, the biggest hit came in the decline of documentary stamp taxes, which are levied mainly on real estate transactions. Documentary stamp tax revenue fell from $4.1 billion in 2005/06 to $1.1 billion in 2009/10, a decline of 73 percent, as a result of the collapse of the real estate market. There was also a substantial decline in revenue from the intangible property tax, but this was due to the elimination of the tax on personally owned intangible property in 2008.

Table 6 (page 84) shows those same individual taxes as a percentage of total tax revenues. The “Other” category of taxes and fees makes up a big percentage of revenues, but individually, each of those taxes or fees is a small part of the budget. This category includes beverage licenses and fees, corporation filing fees, various excise taxes, and tuition and fees at state universities. By far the single largest source of tax revenues is the state sales tax, which has fluctuated between 40 percent and almost 50 percent of total tax revenues during the entire three and a half decades shown in the table. The corporate income tax occasionally brought in more than 6 percent of tax revenues in the 1980s, but in recent years it has been responsible for between 4 percent and 5 percent of tax revenues. Motor fuel taxes bring in slightly more than the corporate income tax, and they go into a trust fund earmarked for transportation—mostly roads.

The documentary stamp tax and intangible property tax are separated out even though they are minor sources of revenue because of recent changes in their collections. The documentary stamp tax is levied on the registration of real estate transactions, and brought in 8.8 percent of total tax revenues in 2005/06, during the real estate boom. By 2009/10, it brought in only 2.6 percent of total tax revenues. The substantial decline was due to the collapse of the real estate market. In the case of the intangible property tax, the tax was repealed in 2008 for individuals owning intangible property like stocks and bonds, so the big decline in revenues was due to a change in the tax structure.

Table 7 (page 85) shows state taxes as a percentage of gross state product. There has been a downward long-run trend in total state taxes, with fluctuations within that long-run trend. Through the mid-1990s, total tax revenues grew as a share of GSP and were consistently more than 7 percent of GSP through most of that decade. Total tax revenues declined as a share of GSP through the first decade of the 21st century, hitting a low of 5.14 percent in 2008/09, but they have have rebounded to 6.08 percent of GSP in 2013/14. The dip was associated with the recession, so it would be difficult to view the rebound over the past five years as a trend, but it does appear that about a third of the decline from revenues (around 7 percent of GSP) is due to the combined declines in documentary stamp and intangible property tax collections.

Sales tax revenues as a share of GSP were consistently above 3 percent through 2005/06 before declining to under 2.5 percent by 2008/09; they have risen by 0.25 percent since then. As the largest source of Florida's tax revenues, any decline in sales tax revenues will be a source of concern for policymakers. As a result, the design of Florida's sales tax has stirred more policy debate than other state taxes. Figure 5 (page 95) shows all state taxes and specifically sales tax revenues as a percentage of GSP; the decline in both is apparent in the graph. Total taxes have had a downward trend from the early 1990s. Sales tax revenues remained relatively level at slightly above 3 percent of GSP during that time, but a substantial decline shows up after 2005, and while the recent trend is up, sales tax revenues as a share of GSP are still well below their average over the past two decades.

Florida's Sales Tax

Florida's sales tax was originally implemented in 1949 as a tax on the retail sale of tangible goods. As originally defined, the tax excluded the taxation of services. The degree to which services should be covered by the tax has been the subject of periodic policy debate in the state for a long time. The sales tax is technically a sales and use tax, with the tax on use essentially being sales tax owed on items consumers use but for which sales tax is not charged. A use tax is owed if a sales taxable item is purchased in Florida but sales tax is not charged. For example, if an item is tax-exempt because it is bought for resale but subsequently used in a business or for personal use, or if an item is purchased out of state and delivered to Florida without sales tax being paid. This last category looms larger in the policy debate as more purchases are made over the Internet.

The state sales tax rate was originally set at 3 percent in 1949; it was raised to 4 percent in 1968 and again to 5 percent in 1982. The rate was finally increased to 6 percent in 1988. Looking at table 7, the 1983/84 rate had just been increased to 5 percent, and since 1988/89 the rate has been 6 percent. Florida also allows counties and school districts to levy local option sales taxes that can add as much as 1.5 percent to the sales tax rate, but this revenue goes to the local governments and is not reflected in the tables.

Taxing Services

Florida's sales tax was originally established as a tax on the retail sale of tangible goods, so services were specifically excluded from the sales tax base. This places the tax treatment of goods on a different basis from the tax treatment of services, as many critics have observed. Proponents of a services tax offer examples, noting that if someone buys hair clippers to cut hair at home, sales tax is charged on the clippers, but if someone goes to a barber for a haircut, no sales tax is charged. Similarly, if someone buys a lawnmower, sales tax is charged on the mower, but if someone hires a lawn care service to mow the lawn, no sales tax is charged on the service.

These are compelling examples but less relevant to Florida's sales tax than they at first appear. Ideally, a sales tax would tax all retail sales only once. Yet in Florida (and in every state with a sales tax), many retail purchases (such as services) are not taxed, whereas many nonretail purchases are. In Florida, about half of all sales tax payments are paid on nonretail purchases.[31] Going to the examples in the previous paragraph, business equipment is sales taxable in Florida, so when the barber buys the clippers or the lawn service buys the lawnmower, they pay sales tax on those items. Businesses that buy computers, cash registers, and most other business equipment pay sales tax on those purchases. Florida also taxes the purchase of construction materials, so when houses, apartments, office buildings, and shopping centers are built, the construction materials going into them are subject to sales tax.

This is a source of inefficiency because those nonretail purchases are double-taxed. If a business buys a cash register, that is a part of the cost of doing business, which must be factored into the retail price of its sales, so the cash register is taxed once when the business buys it and then again when its cost is included in the final price of the retail sale. But because Florida relies so heavily on its sales tax, it would be politically difficult to propose eliminating all nonretail purchases from the tax base—despite the original intent of the tax to be a tax on retail sales only.

While some nonretail sales are taxed, many retail sales are not. Florida specifically exempts groceries and medicines from sales tax, as do many other states, and as already noted, most services are exempt. As the economy has shifted toward the production of more services, policymakers have argued that the sales tax should be extended to services. Note that many services already are taxed—for example, restaurant meals. The biggest push to tax services came in 1987, when the Florida legislature passed a very comprehensive tax on services.[32]

While there is a strong economic argument for treating the retail sale of services the same as the retail sale of goods, the bulk of the revenue that would have been collected under the 1987 services tax was not to come from retail services, but from intermediate services, which would

[31] Raymond J. Ring Jr., "Consumers' Share and Producers' Share of the General Sales Tax," *National Tax Journal* 52, no. 1 (March 1999): 79–90.
[32] Hellerstein, "Florida's Sales Tax on Services," 1–18.

have resulted in double taxation. Legal services, consulting services, accounting services, advertising, and almost all other services would have been subject to Florida's sales tax. This double taxation would have been inefficient. Economic efficiency may play some role in the design of public policy, but the way policy affects powerful interests has a bigger influence, and in this case, those service providers whose services would be subject to the tax provided formidable opposition.[33] Especially vocal were advertisers, whose business was communicating with the general public in a persuasive way. The result was that a few months after the services tax was passed, it was repealed and replaced with an increase in the overall sales tax rate from 5 percent to 6 percent.

Senate President John McKay led another serious push to extend the sales tax to services in 2002. That proposed tax would have been very similar to the 1987 tax; it met with very similar opposition. Ultimately, the status quo remained.

Politically, one problem with passing a services tax is that legislators have to vote to do it, and voting for an extension of the tax base like this is politically unpopular. The result is that even legislators who might personally favor a tax on services might not vote for one. Another strategy that has been suggested is to limit exemptions to the sales tax to a specific number of years (say, five years), after which they would have to be approved by a majority of the legislature or they would expire. Defining services as exemptions to the tax would mean that legislators would have to vote in favor of not taxing services every five years, or those services would be taxed. This tactic would change the default option (if no action is taken) from exempting services from the sales tax to taxing them unless a vote is taken to retain the exemption.

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[33] William F. Fox and Matthew Murray, "Economic Aspects of Taxing Services," *National Tax Journal* 41, no. 1 (March 1988): 19–38; William Duncombe, "Economic Change and the Evolving State Tax Structure: The Case of the Sales Tax," *National Tax Journal* 45, no. 3 (September 1992): 299–313.

The political attraction of requiring an affirmative vote to maintain an exemption is strong. First, those who want a tax on services would not actually have to vote for one. All legislators would have to do is take no action. Gridlock would be a possibility, in which case no action would be taken and a services tax would automatically take effect. A second, and possibly larger, attraction is that every five years, anybody who is selling anything that is not subject to a sales tax would have to lobby the legislature to keep their sales untaxed, under threat that the legislature might tax their sales by simply doing nothing and not voting to extend the exemption. Under this regime, businesses would be forced to engage in rent-seeking activity to try to buy the support of the legislature, just to keep things as they are. This "rent extraction" can be very costly for businesses, but potentially profitable for legislators who are able to get campaign contributions and other support in exchange for maintaining the status quo for those businesses.[34]

Looking at the political incentives, extending Florida's sales tax to services would almost surely mean taxing intermediate services like accounting, consulting, and advertising, because if the tax were limited to the haircuts and lawn care that proponents use in their examples, the tax would raise almost no revenue; there would be little point in expending any political capital to collect it. But there are many political incentives to sunset the exemption of all services. So far, the political interests opposing the taxing of services have been able to hold their ground. This is one area in which term limits may alter the incentives of those in the legislature, many of whom are attorneys. Once their terms are up they will go back to their law practices, and legal services will be taxed if a services tax like the one in 1987, or the one proposed in 2002, is implemented.

[34] This idea has been explained by Fred S. McChesney, "Rent Extraction and Rent Creation in the Economic Theory of Regulation," *Journal of Legal Studies* 16, no. 1 (January 1987): 101–18, and *Money for Nothing: Politicians, Rent Extraction, and Political Extortion* (Cambridge: Harvard University Press, 1997). More recently, see Peter Schweizer, *Extortion: How Politicians Extract Your Money, Buy Votes, and Line Their Own Pockets* (Boston: Houghton Mifflin Harcourt, 2013).

Taxing Internet Purchases

As e-commerce becomes more common, many states are looking for ways to tax Internet purchases. A look back at table 7 gives no strong indication that Florida's sales tax revenues have been adversely affected by the move toward e-commerce. Sales tax collections as a share of GSP remained above 3 percent up through 2005/06, when the housing market collapsed and the economy entered the recession. Recall that construction materials are sales taxable in Florida and one reason for the decline in sales tax revenues as a share of GSP since 2005/06 is the decline in construction. Since bottoming out in 2008/09, sales tax revenues as a share of GSP have risen, and a revival of the construction industry should push revenues up more.

One argument for taxing Internet purchases is that under Florida's sales and use tax law, taxpayers legally owe the tax, but it is difficult to enforce and they are not paying it. It is even unclear, from reading the Florida Statutes (FS), that Internet purchasers actually owe the tax. Florida Statutes section 212.05 states, "It is hereby declared to be the legislative intent that every person is exercising a taxable privilege who engages in the business of selling tangible personal property at retail in this state, including the business of making mail order sales, or who rents or furnishes any of the things or services taxable under this chapter."[35] This quote from the FS makes it appear that it is the Florida retailer who owes Florida sales tax when a sale is made—even if to an out-of-state buyer—rather than the buyer being liable, regardless of the location of the seller. As this statute reads, Internet sellers in Florida who are selling to out-of-state buyers are exercising a taxable privilege. It is the sellers, not the buyers, who are exercising the taxable privilege.

Setting the details of the law aside for the moment, sales taxes are normally remitted to the jurisdiction of the seller, not the jurisdiction of the buyer, just as FS 212.05 says. If a

[35] Fla. Stat. § 212.05 (2011).

Floridian goes to New Orleans and buys something, the Floridian pays Louisiana sales tax, not Florida sales tax. Similarly, if an Ohioan comes to Florida for a vacation and buys something, the Ohioan pays Florida sales tax, not Ohio sales tax. In keeping with the way sales taxation actually works for retail sales, if Internet purchases were to be sales taxable, the tax should be paid in the seller's jurisdiction, not the buyer's. If a Floridian buys something from a New York seller (regardless of whether the purchase is made in person or over the Internet), New York would collect the sales tax from the seller, as it already does when visitors buy goods in New York. Similarly, if a Kansan buys something via the Internet from a Florida seller, the seller should remit the sales tax to Florida, as would be done if the sale were done in person. Further, this appears to coincide with Florida law as written in FS 212.05.

Nearly all Internet tax proposals are to levy the tax on buyers, for good political reasons. The interest groups that lobby for the taxation of Internet purchasers are representatives of retail sellers within those states. The "brick and mortar" retailers argue that their sales are sales taxable, so Internet sellers that do not charge sales tax have a competitive advantage over them. To level the playing field, buyers should pay sales taxes on their Internet purchases. While the argument sounds persuasive, the government goods and services paid for by those local taxes are much more associated with the sellers than the buyers. The retail outlets have local police and fire protection, their customers use the local roads to get to their stores, and the employees of local retailers send their children to local schools. In contrast, the Internet buyer stays off the roads, and the businesses that require the local police, fire, and other services are in other states. This is another reason why the tax should be remitted to the seller's jurisdiction, not the buyer's.

This argument that Florida retailers should pay Florida sales tax when they sell over the Internet to out-of-state buyers is a political nonstarter because the interest groups that lobby for taxation of Internet sales represent Florida retailers, and they want to place taxes on their competitors, not on themselves. Arguing that sellers, rather than buyers, should pay the tax would be arguing that in-state businesses should be paying more in taxes, and of course no in-state businesses are going to lobby for taxes to be placed on them.

The problem with taxing buyers is that the Supreme Court ruled in 1992 that states cannot require businesses that do not have a physical presence in the state to collect and remit sales taxes for purchasers in the state.[36] Regardless of Florida's use tax law (and as already noted, it is unclear that buyers are obligated by it to pay sales tax on Internet purchases), Florida cannot require the sellers to collect and remit the taxes, and buyers almost never volunteer to remit use taxes themselves. One way to collect the taxes would be to have individual states agree to require sellers in their states to remit sales taxes to the buyer's state. The Streamlined Sales Tax (SST) project was designed to provide just such an agreement among the states. Once implemented, the participating states would require businesses in their states to remit sales taxes to the buyers' states.

The SST agreement was adopted in 2002 and has been amended more than 30 times.[37] It is now 206 pages long. Florida is not among the participating states, but there is continuing interest among some Florida legislators to join the agreement. Doing so would be a questionable move for Florida for several reasons. First, the sales tax is Florida's largest source of tax revenue, and joining would mean that Florida's sales tax would have to be redesigned to conform with SST guidelines. Floridians should be very leery about having their largest tax base put under the control of a multistate consortium made up mostly of people from states with

[36] Quill Corp. v. North Dakota, 504 U.S. 298 (1992).
[37] For the group's history and the current agreement, see the Streamlined Sales Tax Governing Board Inc. home page at www.streamlinedsalestax.org.

tax laws that are very different from Florida's. Florida is a low-tax state, and has no personal income tax, so the desires of SST members from other states may be at odds with what would be best for Floridians.

The issue goes beyond what is in the agreement today. Even though the agreement has yet to take effect among the cooperating states, it has been amended on average more than twice a year since it was originally written. Florida could join today and find that it was party to a very different agreement in a few years. Nonetheless, the issue will be an ongoing one in Florida because of the strong lobbying efforts from interest groups representing Florida's retailers who want an agreement that will increase the costs of their out-of-state rivals.

The Documentary Stamp Tax

When real estate transactions occur in Florida, buyers are required to pay a documentary stamp tax to register their ownership. The documentary stamp tax has provided a steady source of revenues to Florida, but as noted earlier, the collapse of the real estate market in 2007 led to a large decline in those state revenues. There has been little in the way of any proposals to change the nature of the tax.

Motor Fuel Taxes

Table 7 shows that motor fuel taxes have been declining as a share of state GSP since the early 1990s. The reduction from around 0.4 percent of GSP to 0.3 percent is a substantial decline. The taxes are earmarked to fund transportation projects—mostly roads—so the decline has an impact on road funding. As automobiles become more fuel efficient, and perhaps shift to alternate fuels, the amount of fuel burned per mile traveled is declining. Another factor that leads to the decline is that the tax rates are stated in cents per gallon, and legislators are reluctant to vote for rate increases even as inflation erodes the value of the dollar.

The primary response to a reduction in funds available for roads has been to build toll roads, financed by user-paid tolls. People resist establishing tolls on roads that do not have them, so political pressures prevent shifting a nontoll road to a toll road. But when voters are offered the option of a new road, financed by tolls, and the alternative is no new road, they do favor the building of the new toll road.

How far this funding model can be taken is an open question. It does appear that the use of motor fuel taxes to fund roads will become less viable over time, but politicians tend to be shortsighted, and at present there is no serious discussion of overhauling the transportation funding model of using motor fuel taxes as the primary source of revenues to finance roads.

Intangible Property Tax

Florida's intangible property tax dates back to 1931, and its primary tax base was financial assets, including stocks, bonds, interests in partnerships, and other intangible property. Bank accounts and assets in tax-sheltered retirement accounts were exempt. The tax was levied on the value of intangible property at the end of each calendar year, and the rate varied from half a mill to as much as two mills, which was the constitutional upper bound. In addition to this recurring tax, there was a nonrecurring two-mill tax when mortgages were recorded.

When Jeb Bush was elected governor in 1998, one item in his platform was to repeal this tax, which he called the "seniors and savers tax." He bargained with the legislature to reduce the rate and to eventually repeal the tax in 2008. The nonrecurring two mill tax on the recording of mortgages remains.

Table 7 documents the reduction in the intangible property tax as a share of GSP through the first few years of the 21st century. In 1997/98 the tax was collecting 0.29 percent of GSP, but collections declined after 2000 as the rate was reduced, and it has fallen to 0.04 percent of GSP in 2013/14, as only the mortgage component of the tax remains. The repeal of the intangible property tax is an interesting political phenomenon. Such a tax would have fallen most heavily on upper-income Floridians, who owned more in the form of intangible assets, so a populist approach to politics would have supported taxing the rich to raise revenue for everyone else. This may be a case of principles rising above politics in that Florida's governor is limited to two terms, and Governor Bush did not face strong opposition when he ran for reelection in 2002, so he was able to use some political capital to get the tax repealed. In addition, he had the support of key legislators who were also term-limited.

The politics was interesting, though, in that Governor Bush had to push continually for repeal, while the legislature compromised a little at a time, cutting the rate but not repealing the tax until Bush's last year in office. By holding off on complete repeal, politicians could use the lure of future repeal as a bargaining chip in the political process.

Real Estate Taxes

Florida's state government does not collect real estate taxes, but such taxes are governed by state law and have been subject to some policy changes over the decades. Florida's constitution limits the number of mills that local governments can levy for property tax, and in perhaps the biggest change to Florida's constitution, the Save Our Homes amendment was added in 1995. The amendment limited the increase in the assessed value of any property with a homestead exemption to no more than the rate of inflation or 3 percent, whichever is lower.

In Florida, as in other states, rising property values had caused people's property tax bills to rise, even when they remained in the same homes. Rising property taxes based on an increase in assessed values could, in the extreme, force people out of their homes as their property taxes made living there increasingly unaffordable.

The Save Our Homes amendment was a citizen initiative amendment, put on the ballot by collecting a sufficient number of voter signatures. It applys only to homestead property: homeowners living in their own homes are protected by the cap on assessed value, which does not apply to other property, including apartments, commercial property, second homes, or out-of-state owners of Florida real estate. When the housing bubble occurred during the first few years after 2000, Florida homeowners were protected from rising property taxes by the Save Our Homes amendment; owners of second homes and commercial property were not. Owners of commercial property have less voting power than homeowners, so getting political support for limits on their assessed property values is problematic.

The Save Our Homes amendment caused another problem, though, which was that homeowners with capped assessments could be "locked in" to their homes and reluctant to sell and give up their tax advantages. Moving to another home in Florida, even one of equal or lesser value, could trigger a big property tax increase. As long as a homeowner continues living in the home, the cap on the assessed value of the homestead is in effect, and over time this can add up to substantial tax savings. But if the house is sold, the sales price will set a new assessed value for the new owner, and the tax savings will be lost. Real estate agents, who are a powerful interest group, disliked the lock-in because it discouraged people from selling their homes and moving to new ones, which cut down on home sales and their associated commissions.

The result was that the legislature put a constitutional amendment on the ballot in 2008 that provided for portability of the tax savings from Save Our Homes and also capped increases in the assessed value of all property to no more than 10 percent per year. Portability means that if a homeowner has a capped assessed value that is less than the fair market value of a home, the homeowner can sell the home and take that difference to lower the assessed value of a new homestead that the homeowner buys. The tax saving goes with the homeowner to the new property. The constitutional amendment passed, getting the support of 64 percent of the voters.

Because Florida allows constitutional amendments to be placed before voters if the amendments get a sufficient number of voter signatures, legislators sometimes feel constrained to place an amendment on the ballot to avoid such an action. The 1995 Save Our Homes amendment that capped assessed values on homesteads to an increase of no more than 3 percent a year was a citizen initiative amendment. The legislature produced the 2008 amendment with a cap of 10 percent on all property, rather than the 3 percent that only applies to homestead property. The legislature felt some pressure to put this amendment on the ballot, largely because of the portability provision that would lower the property taxes of Floridians who moved from one Florida homestead to another.[38] By putting the amendment on the ballot the legislature was able to preempt what might have been a stronger amendment, had it originated from the interest groups that wanted it.

Revenue Variability and the Budget Stabilization Fund

One issue that faces every state is the cyclical variability of tax revenues. While revenues tend to fluctuate from year to year, states run into fiscal problems during economic downturns, when tax

[38] For a discussion of voter support for the amendment, see Ron Cheung and Chris Cunningham, "Who Supports Portable Assessment Caps: The Role of Lock-In, Mobility, and Tax Share," *Regional Science and Urban Economics* 41 (2011): 173–86. The authors find that voters who were more likely to move and had greater savings locked in because of Save Our Homes were more likely to support the amendment.

revenues fall along with the economy. Proponents for a state personal income tax for Florida have argued that if Florida had one, the state would have a more diversified portfolio of tax bases, which would help stabilize Florida's tax revenues, but an analysis of the cyclical variability of tax revenues demonstrates that this is not true.[39] Income tends to fluctuate more during business cycles than sales, and an examination of actual state tax revenues over the business cycle shows that, when the economy goes into a recession, income tax revenues fall by a greater percentage than sales tax revenues, so states with personal income taxes actually have less stability in their revenue streams over the business cycle. Nevertheless, the argument is still made that Florida could reduce its fiscal vulnerability during recessions by adopting a personal income tax.

Florida's constitution was amended in 1992 to create a budget stabilization fund that is designed to hold between 5 percent and 10 percent of the previous year's revenues, putting the funds into the state's general revenue fund. The amendment was placed on the ballot by the Taxation and Budget Reform Commission. General revenues constitute less than a third of Florida's appropriations, so the budget stabilization fund, which is designed to stabilize general revenues, applies to only a fraction of the state's total appropriations. In addition, during an economic downturn, revenues typically are depressed for several years, and the cumulative decrease in revenues is well over 10 percent of one year's revenues, and often is more in the range of 30 percent.[40]

The budget stabilization fund will cushion downturns, but it does not have sufficient reserves to completely mitigate their effects. This is not necessarily a problem. During a decline

[39] See Russell S. Sobel and Randall G. Holcombe, "Measuring the Growth and Variability of Tax Bases over the Business Cycle," *National Tax Journal* 49, no. 4 (December 1996): 535–52.
[40] A substantial analysis of these issues appears in Randall G. Holcombe and Russell S. Sobel, *Growth and Variability in State Tax Revenue: An Anatomy of State Fiscal Crises* (Westport, CT: Greenwood, 1997).

in revenues, the state can take the opportunity to look at expenditures that can be reduced, and this is what actually happened during the recession that began in 2008. Appropriations fell from $73.9 billion in 2006/07 to $66.2 billion in 2008/09—a decline of more than 10 percent—in a two-year span, yet the legislature held the line on taxes and cut expenditures.

Major Expenditure Components

Table 8 (page 86) shows the major expenditure components of Florida's state budget as a percentage of total state government expenditures. Well over half of the 2012/13 budget is composed of education and Medicaid expenditures. The major message in table 8 is that education spending has fallen over time and Medicaid expenditures have taken an increasingly larger share of the state's budget.

In 1989/90, education expenditures (the first two columns of table 8 combined) were slightly more than 34 percent of Florida's expenditures, but by 2012/13 they had fallen to 25.9 percent. Education spending at all levels in 1012/13 was about equal as a percentage of total expenditures to K–12 spending in 1989/90. The downward trend in education spending as a share of total expenditures was especially pronounced in the early 1990s when K–12 spending fell from more than 25 percent of total spending to 17.2 percent by 1995/96. Since the mid-1990s, K–12 spending has fluctuated around 18–21 percent of total spending.

The trend in higher education spending is not as dramatic. After a slight decline in the mid-1990s, higher education spending was a percentage point higher as a share of total spending in 1999/00 than it was in 1989/90. However, it too has declined since then: after peaking at 11.4 percent of total expenditures in 2002/03, it fell to 7.1 percent of total expenditures by 2012/13.

Over the same years Medicaid expenditures have soared, as shown in table 8. In 1989/90 Medicaid consumed 9.4 percent of total expenditures; it has more than tripled to 30.6 percent of total expenditures in 2012/13. With Medicaid expenditures approaching a third of the state's budget, it is apparent why Florida (along with other states) is looking for ways to rein in the program's costs. One place that Medicaid's increasing expenditures may have crowded out other spending is in the category of public assistance, which has plummeted from more than 2 percent of the state's expenditures in the mid-1990s to 0.3 percent in 2012/13.

Figure 6 (page 96) shows the overall decline in education spending as a share of total spending in comparison with the substantial increase in Medicaid expenditures. The figure shows the dramatic shift in Florida's spending priorities, although this shift was less a conscious decision of Florida's politicians and more the result of the gradual increase in enrollment in a means-tested program coupled with an increase in health care costs more generally. With education and Medicaid being the two largest components of the budget, figure 6 makes it clear that while there has not been a downward trend in education's share of the budget since the mid-1990s, Medicaid has more than tripled its share of expenditures since 1989/90, crowding out other parts of the budget.

Corrections expenditures have seen an increase in their share of the budget over the past two decades, a reflection of the "get tough on crime" attitude that the Florida legislature has pursued over that time period.[41] In 1998 Florida's 10-20-Life Law (Florida Statute 776.087) went into effect, which mandates that convicted felons be sentenced to the maximum allowable sentence when a gun is used in commission of a felony. Using a firearm during the commission of specified felonies requires a 10-year minimum sentence, firing a firearm during the

[41] See Aaron Deslatte, "Florida Leads Nation in Longer Prison Sentences, Study Finds," *Orlando Sentinel*, June 6, 2012, which references legislation dating back to the early 1990s.

commission of the felony requires a 20-year minimum sentence, and shooting someone carries a minimum 25-year sentence regardless of whether the victim is killed or only injured. The 10-20-Life Law also brought with it minimum mandatory sentences for other crimes. Florida law also specifies that prisoners who committed their crimes after October 1, 1995, must serve a minimum of 85 percent of their sentences. Two decades of "tough on crime" policies in Florida have increased its prison population to more than 100,000, and the increased share of corrections expenditures in Florida's budget reflects the state's legislated policies.

Transportation expenditures have fluctuated relatively little over the past few decades, taking up 11.3 percent of state expenditures in 1989/90 and 11 percent in 2012/13. Some modest declines are apparent during recession years, but Florida finances its transportation expenditures from motor fuel taxes, which tend to be relatively constant over the business cycle, and federal grants, which account for the relative stability in transportation expenditures.

Education

K–12 education. Elementary and secondary education in Florida is provided by Florida's 67 school districts, but while it is administered by local governments (i.e., school districts), more than 55 percent of K–12 school expenditures comes from the state.[42] The K–12 system saw a considerable increase in enrollment during the 1990s, but it slowed in the first decade of the 21st century. Table 9 (page 87) shows that enrollment went from about 2 million in 1993/94 to 2.5 million by 2001/02. A decade later, 2011/12 enrollment was only slightly higher at 2.7 million,

[42] The geographic boundaries of Florida's 67 school districts are identical to the boundaries of Florida's 67 counties, but the school districts are separate governments and are not part of the county (or city) governments. They have separate budgets and separate elected leaders. School board members are elected; school district superintendents are elected in some districts but appointed in others. Whether they are elected or appointed seems to make little difference in the performance of the school systems. See Mark Partridge and Tim R. Sass, "The Productivity of Elected and Appointed Officials: The Case of School Superintendents," *Public Choice* 149 (October 2011): 133–49.

and actually lower in 2011/12 than it was in its peak year of 2005/06. During the 1990s, it was common for enrollment to grow by 2 percent to 3 percent a year, whereas since 2005/06, enrollment growth has only been a fraction of a percent each year, and was even negative in some years.

One measure of the quantity of educational services provided is the pupil/teacher ratio, and the two right-hand columns in table 8 show that Florida has not been far away from the national average over the entire time period. The pupil/teacher ratio peaked in 2002/03, and perhaps not coincidentally, in 2002 Floridians approved a citizen initiative constitutional amendment to limit class sizes in K–12 schools. The limits are 18 students in a class up through third grade, 22 students in grades four through eight, and 25 students in grades nine through twelve. This constitutional limit on maximum class sizes places a burden not only on the instructional budget but also on the construction budget, because additional classrooms might be needed to accommodate the constitutionally required cap on class size.

Looking in table 9 at the years before the 2002 class size amendment, one can see the enrollment growth ranging from about 2 percent to more than 3 percent each year and understand why class sizes were expanding. Part of Florida's growth included school-age children, and the frustration of parents who were sending their children to increasingly crowded schools resulted in that citizen initiative amendment. Comparing Florida's average class sizes to the national average, Florida was only one or two students above the national average at that time, but in rapidly growing areas, classes could have had more students.

Demographic trends helped curb the increase in class sizes across the state, as student enrollment never grew by more than 2 percent a year after the 2002 amendment was passed, and for three consecutive years, statewide enrollment actually declined. It was not much larger in 2011/12 than it was when the class size amendment was passed.

Looking back to table 8, it does not appear that the class size amendment had much of a long-run impact on K–12 education spending. Spending did rise slightly to above 20 percent of total expenditures for a few years, but in 2012/13, the 18.8 percent of expenditures going to K–12 education was about the same as when the amendment was passed.

Table 10 (page 88) shows that expenditures per pupil have increased significantly throughout the period. Expenditures in 2002/03 were $6,729, and they increased by 45 percent to $9,752 by 2011/12. However, this increase in spending did not even keep up with the national average. The national average in 2002/03 was $7,734 per pupil and increased by 53 percent to 11,864 per pupil by 2011/12. Florida's per pupil expenditures were 87 percent of the national average in 2002/03, and had fallen to 82 percent of the national average by 2011/12. It is interesting to note that over that time period, Florida's pupil/teacher ratio had gone from above the national average to below it, while its expenditures per pupil had fallen relative to the national average.

Measuring the output of schools is a difficult task, so the production of education is often judged by measuring inputs rather than outputs. One measure of inputs is the pupil/teacher ratio, and by this measure, Florida looks good, having gone from above the national average to below it. Another frequently cited measure is expenditures per pupil, and here Florida has consistently been below the national average and in fact has fallen over the past decade relative to the national average. However, looking only at inflation-adjusted expenditures per pupil, Florida has shown substantial increases—just not as substantial as the rest of the nation. Of course, expenditures show the cost of educating students, not the benefit, so this measure is problematic in any event.[43]

Measurement of student progress is the motivation behind standardized testing for students, something Florida has done for decades. In 1998 Florida adopted the Florida Comprehensive Assessment Test (FCAT) to evaluate student progress in a standardized test that enables comparisons from year to year, and across schools. Standardized testing has been controversial because of the claim that teachers then "teach to the test" rather than providing a more general education that emphasizes critical thinking over facts and procedures that will be tested. The national push toward standardized testing was reinforced by the 2001 No Child Left Behind Act that tied federal funding to learning standards. States were free to set their own standards, but in 2010, the Florida legislature voted to leave the old FCAT behind and adopt the nationwide Common Core Standards, which are taking effect in the 2014/15 school year.

A big part of the push for standardized testing is to make teachers accountable for their performance in the classroom.[44] Parents complain about teaching to the test, and teachers complain that student performance is determined at least as much by students' home environment as by what happens in school. Nonetheless, accountability seems to have strong political support. In the 2014 session, the Florida legislature passed legislation that evaluates teachers annually based on their students' performance on standardized exams and restructures salaries so that high-performing teachers can earn more than others, even more than those with

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[43] Andrew J. Coulson finds that higher levels of expenditures do not lead to better student performance in "State Education Trends: Academic Performance and Spending over the Past 40 Years" (Cato Institute Policy Analysis 746, Cato Institute, Washington, DC, March 18, 2014). Dan Lips, Shanea Watkins, and John Fleming come to the same conclusion in "Does Spending More on Education Improve Academic Achievement?" (Heritage Foundation Backgrounder 2179, Heritage Foundation, Washington, DC, September 8, 2008). Most studies find that higher spending levels on education do not produce better student outcomes.

[44] See Andrew Ujifusa, "Teacher, School Accountability Systems Shaken Up," *Education Week*, June 11, 2014; and "Use of Data in Florida's School Accountability System and Educator Evaluations," *Florida Department of Education*, June 22, 2012.

more seniority. Newly hired teachers will no longer be able to earn tenure but will be hired on annual contracts, all with the idea that accountability will improve teacher performance.

Needless to say, teachers' unions do not like the new system, and the Florida Education Association has filed a lawsuit arguing that the new law is unconstitutional.[45] But Florida has a majority-Republican House and Senate and a Republican governor. Teachers' unions typically support Democrats over Republicans, so the governor and majority in the legislature can figure that the new laws will not cost them many votes because those who oppose the new system would not have voted for them anyway.

Higher education. Florida has 12 universities plus 28 state colleges in its state university system. The state colleges began as two-year community colleges but now all offer four-year degrees and most have changed their names (for example, from Santa Fe Community College to Santa Fe State College). The higher education system has evolved and expanded as people around the state have expressed a demand for colleges in their local areas. Responding to this demand is a good example of shortsightedness in politics, because there is not much initial cost involved in establishing a new university. The physical plant must be planned and built before the university goes into operation and the long-run costs show up. Meanwhile, politicians get credit for establishing local higher education options for their constituents, so there is a great incentive to do so without budgeting for their long-term costs. In 1955 Florida had three state universities (University of Florida, Florida State University, and Florida A&M University), and the number has continued to expand from there.

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[45] See "SB 736—The Student Success Act Outlines How Florida Teachers Get Paid," State Impact, National Public Radio, accessed October 7, 2014, http://stateimpact.npr.org/florida/tag/senate-bill-736.

Most recently, Florida Polytechnic University was established in Lakeland because a powerful state legislator wanted a university in his district.[46] Interest group politics explains the proliferation of universities in the state, and the creation of state colleges out of community colleges is a result of mission creep, as the administrators in former community colleges wanted to expand their domain and offer four-year degrees.[47] Many of these state colleges are in areas that are already served by the state university system.

The rising cost of college has been a national issue, and Florida has seen some increase in its tuition. Adjusted for inflation, average tuition and fees in Florida's universities have risen from $2,231 in 1990 to $3,509 per year in 2010, an increase of 57 percent.[48] For state colleges, tuition and fees were $1,314 in 1990 and $2,521 in 2010, an increase of 92 percent. Still, the price is low compared to the cost of higher education in other states. Fighting higher state tuition, Governor Rick Scott has vetoed legislation to allow tuition to rise—a politically popular stance—while also overseeing substantial cuts in state funding.[49] In 1990 state funding per student in higher education was $8,012; it had fallen to $6,150 by 2010. In 2006 funding per student was slightly above $10,000, so state funding per student in higher education has declined by nearly 40 percent in a few years. Looking more broadly at education funding per student, it is interesting to compare the figures in this paragraph with those in table 10: per-student funding for K–12 education has exhibited major increases while funding per higher education student has declined precipitously.

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[46] See Kim Wilmath, "Scott Approves Bill Creating Florida Polytechnic University," *Tampa Bay Times*, April 20, 2012.

[47] For a classic analysis of bureaucratic mission creep as administrators seek to increase their domains and budgets, see William A. Niskanen, *Bureaucracy and Representative Government* (Chicago: Aldine-Atherton, 1971).

[48] Figures in this paragraph come from the Research Institute on Social and Economic Policy, "Florida's Great Cost Shift: How Higher Education Cuts Undermine Its Future Middle Class" (2012). Dollar figures are adjusted for inflation and are in 2011 dollars.

[49] Aaron Deslatte, "Gov. Scott Vetoes 3% Tuition Hike, $368M in Projects," *Orlando Sun Sentinel*, May 20, 2013.

Much of the decline in state funding for higher education, while policymakers at the same time hold the line on tuition increases, is driven by the perception (not entirely incorrect) that the value of a college education lies in the receipt of the degree more than in the learning that takes place. Many employers specify that they are hiring college graduates even for jobs that do not require the skills that a college education provides. This decline in state funding has driven universities to become more entrepreneurial, looking to outside grants and to donations for funding. And, as any college student will affirm, class sizes are large—sometimes with hundreds of students—and at universities many classes are taught by graduate students. These may be sensible strategies if it is the degree rather than the education that is valuable. Politicians can tout the number of graduates the system is turning out while keeping tuition affordable and reducing state funding at the same time.

Health Care

State health care expenditures. Medicaid's growing share of the budget is clearly evident in table 8. Table 11 (page 89) shows that enrollment in the program continues to grow, both in absolute numbers and as a share of Florida's population. Enrollment in 2011 topped 3.8 million, and more than 20 percent of all Floridians were recipients of Medicaid, compared with under 15 percent in 2000. The program's costs have risen by more than a third solely because of the increase in enrollment since 2000. While the increase in enrollment could be viewed as a positive development because Medicaid is extending health care coverage to a larger percentage of Floridians, the burden that it places on the state budget makes it an obvious target when looking for ways to control spending.

The federal government covers more than half the cost of the Medicaid program. Setting aside the decrease in the state's share during the recession that began in 2008, the state's share appears to be slightly above 40 percent of the total cost of the program. The federal share has been an issue recently, when the Affordable Care Act (ACA) offered states the opportunity to expand their Medicaid programs with the federal government temporarily picking up the additional cost.

Medicaid under the Affordable Care Act. One provision of the ACA allowed states to expand their Medicaid coverage to low-income adults, with the expansion fully funded by the federal government for three years and then 90 percent funded until 2022.[50] The Florida legislature voted not to implement this expansion because of the increased costs it would impose on the state once the federal funding was scaled back. Shortsighted legislators would have taken the money now, knowing they will reach their term limits, and leave the legislature in 2022 to deal with the long-term costs—so it is worth a remark that Florida's legislature took a fiscally responsible position to shield future legislatures from having to deal with funding those costs. Supporters of the ACA's Medicaid expansion cited a White House study saying that implementing it would create 63,800 jobs and extend health care to 848,000 people.[51] With Florida's population now just shy of 20 million, the White House projection was that an additional 4 percent of Florida's population would end up on Medicaid should Florida implement the expansion.

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[50] *Guide to State Requirements and Policy Choices in the Affordable Care Act*, Center for Healthcare Research & Transformation, April 28, 2011, www.chrt.org/publication/guide-state-requirements-policy-choices-affordable-care-act/.

[51] See Alex Leary, "White House: Blocking Medicaid Expansion Would Cost Florida 63,000 Jobs," *Tampa Bay Times*, July 2, 2014, www.tampabay.com/news/politics/stateroundup/white-house-report-medicaid-expansion-would-create-63000-jobs-in-florida/2186836.

In 2011 Florida's total Medicaid enrollment was 3.8 million, an increase of 58 percent over its enrollment of 2.4 million in 2006. Assume that Medicaid enrollment grows by another 58 percent by 2022. In that case, the projected 848,000 enrollment increase from the Medicaid expansion will make Medicaid enrollment 14 percent larger. Assuming the new enrollees have about average costs, they will increase the program's cost by 14 percent.[52] If enrollment does not expand except for the new ACA enrollees by 2022 (an unrealistic assumption), the projected 848,000 new enrollees will increase the program's participants and cost by 22 percent. Thus, it seems reasonable for a fiscally prudent legislature to reject the expansion, which could add 14–22 percent to the state's Medicaid expenditures.

Medicaid managed care. In 2011, the Florida legislature passed legislation that allowed the state to expand a pilot program to move Medicaid enrollees to managed care. The program began in five of Florida's 67 counties and required a federal waiver to extend it to the rest of the state. That approval came in June 2013.[53] The primary motivation for shifting Medicaid enrollees to managed care was to save costs. As the figures in table 11 show, Medicaid has been consuming an increasingly large share of Florida's budget.

Under the former system, people covered by Medicaid went to a health care provider, and the provider was reimbursed by the state for the services provided. Under the new managed care system, the state contracts with health maintenance organizations and pays those organizations a fixed fee for the covered Medicaid recipients. The cost for recipients is fixed ahead of time, and

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[52] This is calculated by taking the projected 50 percent increase, which would imply an enrollment of 4.95 million, and calculating that an additional 848,000 enrollees projected by the White House is a 17 percent increase in enrollment.

[53] Gary Fineout and Kelli Kennedy, "Florida Gets Final OK for Medicaid Privatization," Moderncare Healthcare website, accessed July 3, 2014, www.modernhealthcare.com/article/20130614/INFO/306149984#.

any risks due to higher costs are borne by the managed care provider; likewise, reductions in cost go to the provider. This arrangement provides an incentive for a provider to control its costs, and lower costs can save the state money when it negotiates rates with the managed care providers.

As of July 2014, the shift to managed care had been completed in 54 of Florida's 67 counties. While Florida is not unique in utilizing managed care for Medicaid enrollees, it is among the pioneers in moving in that direction.[54] Critics have argued that the shift toward managed care will lower the quality of care while supporters have argued that managed care providers have an incentive to provide better care at lower cost. Because the shift to managed care is so new in Florida, it is too early to assess its results, but other states will undoubtedly be looking at Florida's Medicaid reforms to see whether they live up to their promises.

The Florida Retirement System

Florida retirement system history. The Florida Retirement System (FRS) is primarily a defined benefit pension plan that is offered to state government employees and to some local government employees. A defined contribution option was added in 2003 and has become more popular, although it remains a small part of the FRS. Local governments in Florida can run their own pension plans or choose to join the FRS. The defined benefit plan, which currently makes up the bulk of FRS pensions, means that retirees' pension benefits are determined by a formula based on how much they are paid and how many years they have worked. As they are working, the state contributes to the FRS with the idea that upon an employee's retirement, the FRS has sufficient assets to pay the contracted retirement benefits.

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[54] See "Florida Medicaid Privatization Underway Statewide," *CBS Miami*, July 2, 2014, http://cbsloc.al/1CJhV0B.

Table 12 (page 90) shows a breakdown of those receiving pensions in 2012 from the FRS defined benefit program. The table shows that by far the largest group of pension recipients are former school district employees, who make up 46.3 percent of recipients. Retirees from county governments make up 22 percent of recipients, which is slightly larger than the percentage of retirees from state government jobs. Retirees from universities and community colleges (now state colleges) make up about 8 percent and city and special district retirees make up only about 3 percent of recipients. The last fgure reflects, at least partly, the fact that many cities run their own retirement programs, whereas school districts are more inclined to enroll their employees in the FRS.

Table 13 (page 91) shows total membership in the FRS for almost two decades, so it includes current workers in addition to retirees who are collecting pensions. The table shows that membership is no longer growing and in fact has been declining over the past several years. The trend follows the decline in state government employment, although as table 12 showed, only about a fifth of retirees are retired state workers. In the 2003/04 year, FRS members were offered the opportunity to choose a defined contribution plan (called an investment plan in the table) instead of the defined benefit plan that had previously been the only option. About one-sixth of members have opted for the defined contribution plan, and that number will likely increase in the future. One reason is the possibility that future reforms will force enrollment into the defined contribution plan (as discussed below), but some reforms that have already taken place that make the defined benefit plan less attractive. The plan originally had a generous cost-of-living escalator built in, but it is being phased out. Also, there was a generous deferred retirement option plan (DROP) that would allow members to enroll and work for five more years. During those five years, employees would receive both a salary and a retirement payment. The retirement payment would be deposited into an interest-earning account, and the employees would receive the account in a lump-sum payment when they retired after that five-year period. The return earned during that five years was cut significantly, lowering the payout at the end and reducing the program's appeal.

Table 13 shows that the plan was overfunded through 2007/08 according to the state's calculations. The funding ratio has fallen to 86 percent in the aftermath of the recession,[55] giving some indication of the degree to which the FRS has unfunded liabilities. However, the figure is driven by a number of assumptions, including the rate of return the FRS will earn on its assets (which currently is 7.75 percent), the final earnings on which retiree pensions will be calculated, and how long retirees will survive and draw pensions after they retire.[56] While the FRS appears to be in relatively good financial shape, especially when compared to the pension programs of other states,[57] these uncertainties mean that there are risks that FRS unfunded liabilities could increase in the future if the assumptions are overly optimistic.[58]

There is another problem that exists more generally for government-run defined benefit programs: Because slight changes in assumptions can make large differences in the degree to which the programs are funded, there is always the political temptation to change those

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[55] The state may be overly optimistic in its estimates of its future liabilities because its discount rate does not account for risk inherent in the future returns it expects, but other states use similar methods so Florida's funding level still looks good relative to other states. For a discussion, see Robert Novy-Marx and Joshua D. Rauh, "The Liabilities and Risks of State-Sponsored Pension Plans," *Journal of Economic Perspectives* 23, no. 4 (Fall 2009): 191–210.

[56] One study that questions these assumptions is Milliman Inc. to State Retirement Director Sarabeth Snuggs, "Study Reflecting the Impact to the FRS of Changing the Investment Return Assumption to One of the Following: 7.5%, 7.0%, 6.0%, 5.0%, 4.0%, or 3.0%," March 11, 2011, www.floridahasarighttoknow.com/docs/StatePensionActuaryLetter.pdf. See also Barbara Apostolou, Nicholas G. Apostolou, and Richard Brooks, "The GA(A)P in Underfunded State Pension Liabilities," *CPA Journal* 81, no. 5 (2011): 17–21. Apostolu argues that current standards for calculating the financial health of pension plans are inadequate to make an accurate assessment.

[57] Florida ranked ninth best among states in its unfunded pension liabilities in 2011. See "State Pension Plans: Liabilities, Funded Ratios," Governing the States and Localities website, accessed October 7, 2014, www.governing.com/gov-data/state-pension-funds-retirement-systems-unfunded-liabilities-obligations-data.html.

[58] The Pew Center on the States discusses the problem and puts Florida among the four best states in terms of pension funding. See *Trillion Dollar Gap*.

assumptions and promise current workers larger retirement benefits without putting more money into the system. The benefits of doing so come immediately to workers, and there may be gains in terms of political support for elected officials. Meanwhile, the costs are deferred into the future. With a defined contribution program, these temptations are eliminated.

New accounting standards introduced by the Governmental Accounting Standards Board (GASB) in 2012 suggest that most states are more underfunded than they have previously reported. The new GASB 68 standard indicates that Florida's funding level in 2012 was 76 percent rather than the 86 percent that the state was reporting.[59] The new standards are relevant to the pension reform policy debate in Florida because they serve to question one argument in support of the status quo: that the current system is in good financial shape, and so not in need of reform.

Recent reform attempts. While the FRS looks relatively solid compared to many other state retirement systems, it is underfunded now and vulnerable to the same types of financial uncertainties that plague other defined benefit pension plans. The three main uncertainties for the FRS are overly optimistic estimated rates of return (as discussed above), underestimates of base salaries for pension purposes, and uncertainties about retiree life expectancies. The booming stock market of the 1990s helped states keep their pension plans funded. With rates of return on investments falling in the after the year 2000, many pension plans, including Florida's, were overly optimistic about the rate of return they could earn on their assets. Another uncertainty is that while contributions into the FRS are made on behalf of employees throughout their careers, their pensions are determined by their salaries in the last three years of their employment, and that salary can often turn out to be higher than anticipated. Also, because

[59] See Alicia H. Munnell et al., "How Would GASB Proposals Affect State and Local Pension Reporting?" (Issue in Brief Number 23, Center for Retirement Research at Boston College, November 2011, updated September 2012).

pension benefits are paid to retirees until they die, if life expectancies are underestimated, the plan can become underfunded.

These factors affect all pension plans, not just government plans, and the uncertainties of defined benefit pension plans have led to a major migration away from them in corporate America, toward defined contribution plans. Under a defined contribution plan, the employer (in this case, the state) contributes to an account that belongs to the employee, and the money in the account is invested and earns a return. Upon retirement, the retiree's pension benefit is determined by the amount in that person's account. If the account's investments have done well, the retiree will have more at retirement; if they have done poorly, the retiree will have less. Looking at the risks noted earlier, a defined contribution plan has the employee bear those risks; a defined benefit plan has the employer bear the risks.

There has been a major push in the Florida legislature to restructure the FRS in order to place all new employees in a defined contribution plan, rather than the defined benefit plan now offered by the FRS.[60] Public employee unions have come out in opposition to defined contribution pension plans, and so far, while a defined contribution plan has been created, it has not found sufficient legislative support to have it replace the defined benefit plan. Several smaller reforms have been passed in the past four years, including requiring employees to contribute 3 percent of their salaries to the FRS—the state paid the entire cost before—and a significant reduction in cost-of-living adjustments for future retirees. These changes have made the existing defined benefit plan substantially less attractive.

[60] Much of this section is based on Randall G. Holcombe, "Florida Retirement System Reform: Why Now?" (Policy Brief, James Madison Institute, Tallahassee, FL, April 2014), www.jamesmadison.org/issues/2014-policy-brief-florida-retirement-system-why-now.html.

One argument against reform is that even though the FRS is currently underfunded, it is still relatively healthy, both compared to other states and in absolute terms. This leads to the "if it ain't broke, don't fix it" justification for retaining the status quo. The argument is weak because the time to fix the system is not after it has substantial unfunded liabilities—as now exist in Illinois and California—but before those big problems arise. In 2013 the state budget allocated $500 million to the FRS to cover unfunded liabilities; those costs will continue to be imposed on the state budget unless the system is reformed. There are strong arguments from the state's standpoint to shift to a defined contribution plan. Ultimately, there may also be good arguments when looking at the interests of future retirees. Retirees own their accounts under a defined contribution plan, but there is always the possibility that benefits could be cut under a defined benefit plan.

The reforms that the legislature has considered thus far have been aimed at shifting the FRS to a defined contribution plan, but if Florida decides to go in this direction, a better option would be to completely privatize the system and eliminate the FRS. Many private firms operate defined contribution retirement plans. The state could choose one or offer employees alternatives and completely remove itself from the pension business once the last FRS retiree has died. It would likely be infeasible to move current defined benefit retirees off the state system and into a private one, but it would be easy to create private accounts, run by private firms, for new employees. Over time, the FRS would shrink and eventually disappear. Florida already offers the private option to university employees, who can either join the FRS or participate in a private-sector defined contribution plan.

Local government pension plans. Local governments in Florida have the option of participating in the FRS or of running their own systems. Many local governments have chosen to participate in the FRS, but others—especially at the city level—have chosen to run their own plans instead. Whereas the FRS is in reasonably good financial shape, the same cannot be said of the local systems. Roughly a quarter of the local government pension plans are more than 80 percent funded, but another quarter of the plans are less than 60 percent funded.[61] Underfunding often occurs when local governments bargain with labor representatives over employment contracts. It is easy to concede overly generous pension benefits rather than wage increases because the costs of pensions only come years, and even decades, down the road, whereas wage increases come out of the current budget. Government representatives who do the bargaining may believe with some justification that if their estimates turn out to be overly optimistic, that will be someone else's problem. Pension costs can be pushed into the future, but for many Florida local governments, the future has arrived.

There are a number of factors that cause local government pension plans to be underfunded.[62] First, in some cases, pension plans guarantee cost-of-living increases that exceed inflation, so that over time, retirees collect larger and larger pensions. Plans may specify a fixed annual percentage increase regardless of the inflation rate.

Second, plans may be underfunded because of spiking, which can occur when the base on which the pension is calculated includes more than just an employee's base salary. If overtime pay is included in the base, employees can work lots of overtime before retirement and have that built into their pensions. Spiking can also occur if retirees receive large raises just before retirement. Typically, the employee's average final compensation (AFC) determines the pension

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[61] See "Doing It Right: Recognizing Best Practices in Florida's Municipal Pensions" (Tough Choices Facing Florida's Governments, Leroy Collins Institute, Tallahassee, FL, August 2013). Florida's local government pension plans appear to be in increasingly worse shape. See "Report Card Update: Florida Municipal Pension Plans" (Tough Choices Facing Florida's Governments, Leroy Collins Institute, Tallahassee, FL, September 2014).
[62] These factors are discussed in "Doing It Right" (Leroy Collins Institute).

level, and AFC is calculated from the employee's final years of service. Sometimes this is as short as three years. So employees who can spike their salaries in the final three years will get larger pensions, putting pension plans further in the hole.

A third reason local government pension plans may be underfunded is that employee representatives can negotiate changes in multiplier rates for the pension plans, which results in larger payouts for the same AFC. The multiplier rate is the percentage of the retiree's salary that will be paid as a pension. And finally, unrealistic assumptions about life expectancy, or the rate of return on the plan's assets, lead to underfunding.

What, if anything, the state government should do to deal with underfunded local government pension liabilities is a complex question.[63] At one extreme, this might be viewed as a local government issue, so the state government should remain uninvolved. At the other extreme, all the powers of local governments are granted by the state, so the state government is responsible for ensuring that those powers are not used to the detriment of Florida's citizens. Many local governments have chosen to use the FRS rather than create their own pension plans, and the state could mandate that all local government pension plans be administered through the FRS. While this could limit future problems, it would not eliminate current unfunded liabilities. The state could also pass regulations that specify provisions that local governments could use in their pension plans, which again would not eliminate current unfunded liabilities. The unfunded liabilities have already been incurred and either they have to be paid, likely out of general revenues, or pension benefits have to be reduced. The legal issues involved in reducing benefits that have already been promised are formidable, and perhaps unfair to the people to whom the

[63] See Randall G. Holcombe, "Protecting Florida's Cities through Pension Reform" (Backgrounder 66, James Madison Institute, Tallahassee, FL, January 2011).

benefits were promised, meaning that local government budgets will likely be burdened with these unfunded mandates well into the future.

While Florida has been more responsible at the state level, there is no guarantee that this fiscal responsibility will continue into the future. That makes a good argument for shifting all government pensions in Florida to defined contribution plans, which the state can mandate for local governments. Although this action would prevent the continued accumulation of unfunded liabilities, governments would still have to deal with the unfunded liabilities they currently have.

Citizens Property Insurance Corporation

After Hurricane Andrew passed through Miami in 1992, some Floridians had trouble obtaining property insurance. In response, the Florida legislature created two insurers of last resort, along with the Florida Hurricane Catastrophe Fund that insurers could draw on in the event of large hurricane-related claims. In 2002 the two insurers were merged into Citizens Property Insurance Corporation, which is a state-owned and state-operated insurance company. The intention was for Citizens to be an insurer of last resort.

Because insurance rates are regulated in Florida, it is possible that certain homeowners could find themselves unable to buy homeowners insurance at any price. An unregulated market would set the market price for insurance as it does for other goods and services, so that the quantity supplied equals the quantity demanded, but with regulated prices, it is possible that no insurer would be willing to issue policies to some homeowners at the state-mandated price. After relatively quiet hurricane seasons from 1993 to 2003, Florida was hit by four major hurricanes in 2004 and another five in 2005, causing property insurance rates to increase, which resulted in the widespread feeling among Florida's citizens that government should do something to hold property insurance rates down.

Charlie Crist was running for governor at the time, and he based part of his campaign on lowering insurance rates. Shortly after he was elected in 2006, Crist lowered the rates charged by Citizens to make them more competitive, with the thought that competition from the state insurer would force private insurers to also lower their rates.[64] One result was that Citizens expanded substantially and by 2012 was Florida's largest property insurer, with about 1.4 million policyholders, insuring about 23 percent of Florida's homeowners.[65]

Florida has been fortunate that no hurricanes have made landfall in the state between 2006 and 2014, which has shielded Citizens from taking major losses beyond its financial ability. Another major hurricane could bankrupt Citizens and leave Florida's taxpayers on the hook for the losses. The potential liability Citizens presents to the state is well recognized, but the state has been slow deal with it, partly because the insured homeowners have been a political force and do not want to be forced to switch to private insurers with higher premiums. One method the state has been using to shed Citizens policyholders has been paying private insurers to take them. This has been controversial, and branded by critics as corporate welfare.[66] By April 2014, Citizens had reduced its number of policies to about 940,000, so Florida is making some progress on this front.[67]

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[64] Christian Camera, "Ghost of Charlie Crist Haunts Insurance Reform," *Insurance Journal*, February 15, 2013.
[65] Toluse Olorunnipa, "Thousands of Policyholders Face Deadline to Find Other Insurer," *Tampa Bay Times*, November 5, 2012.
[66] "Alex Sink Blasts New Citizens Deal," *Florida Times-Union*, June 24, 2013. Alex Sink is a former Chief Financial Officer for the state, and candidate for governor in 2008.
[67] Donna Gehrke-White, "Property Owners Better Protected as Hurricane Season Nears," *Orlando Sun-Sentinel*, May 24, 2014.

Infrastructure

Highways. At the state level, the biggest component of infrastructure is roads. As table 8 showed, transportation funding is holding its own in Florida's budget. Despite having fallen to 9.4 percent of state government expenditures in 2010/11 during the recessionary downturn, by 2012/13 it was back up to 11 percent, about where it was in 1989/90, and in the neighborhood of where it has been for the past quarter of a century.

While Florida's population continues to grow, table 1 showed that in terms of percentage, that growth has slowed over the decades. Rapid population growth put a strain on Florida's infrastructure and resulted in increasing traffic congestion; slower growth and current funding levels may offer the opportunity to increase road capacity and lessen traffic congestion.[68]

The state has moved toward building toll roads as a way of funding new roads.[69] As noted earlier, there is substantial political opposition to establishing tolls on roads that were previously accessible at no charge. However, there is less political opposition to building new roads financed by tolls, perhaps because voters believe that financing a road through tolls is the only way the road could be built.

Florida's first major toll road was Florida's Turnpike. Construction on the road began in 1957 and it was completed from Wildwood to Miami in 1964. It was financed by 20-year bonds to be paid off by the tolls, and Floridians were told at that time that when the bonds were paid

[68] David T. Hartgen, M. Gregory Fields, and Baruch Feigenbaum, "21st Annual Report on the Performance of State Highway Systems," (Policy Study 436, Reason Foundation, September 2014). This report notes that Florida has more highway congestion than any other state in the nation.

[69] "Florida has 734 miles (1,181 km) of toll roads, bridges, and causeways as of June 2013, more than any other state." List of Toll Roads in Florida, *Wikipedia*, accessed October 9, 2014, http://en.wikipedia.org/wiki/List_of_toll_roads_in_Florida.

off, the tolls would be eliminated. That did not happen, and the road continues to be a toll road (and has been extended an additional 48 miles to end in Homestead).[70]

High-speed rail. The possibility of amending Florida's constitution has played a significant role in attempts to build high-speed rail within the state. A citizen initiative amendment, approved in 2000, mandated that the state build a rail system to link Florida's five largest urban areas with trains traveling at a minimum of 120 miles per hour. Construction was to begin in 2003. As a result, the legislature created the High Speed Rail Authority (HSRA) in 2001 to oversee the project. As planning for the project moved forward, Governor Jeb Bush supported another citizen initiative amendment to repeal the earlier amendment, which was approved by the voters in 2004. The constitutional mandate to build high-speed rail was gone, but as is often the case with government agencies, the HSRA lived on.[71]

In 2009 the Federal Railroad Administration designated Florida as eligible for federal funding to build high-speed rail, and the Florida legislature voted to construct high-speed rail to connect Tampa, Orlando, and Miami, with the first segment to be constructed from Tampa to Orlando. Powerful political interest groups support projects from which they could benefit; one of those Florida interest groups was the Walt Disney Corporation. One of the planned stops in the project was at Disney World and another was at the Orlando airport.

In addition to interest group politics, the political lure to get a fiscally conservative legislature to vote in favor of the project was about $1.2 billion in federal funding that would come to Florida. Much as in the Medicaid case described earlier, it is often difficult to resist the

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[70] "Florida's Turnpike: Providing Transportation Alternatives for 55 Years!," Florida's Turnpike Enterprise website, accessed February 10, 2015, www.floridasturnpike.com/about_history.cfm.
[71] See www.floridabullettrain.com/fhsra/2_projectstatus.html for the HSRA's current plan.

lure of attracting federal funding to the state, even though the federal money will fall well short of paying for the entire project. After Rick Scott was elected governor in 2010, one of his first acts as governor was to cancel the high-speed rail project in 2011. Scott ran as a fiscal conservative and argued that the project would cost the state millions of dollars every year and would not be cost effective.[72]

Other rail projects are also in the planning stages in Florida. One would connect Miami, Fort Lauderdale, and West Palm Beach, while another would run from Orlando to Daytona Beach. These projects have enough local support to keep them alive, although the rail lines have yet to be built.

Florida seaports. Florida has 15 seaports throughout its extensive coastline, and while developing them is a minor political issue and generally supported, state policy is to devote funds to improve the ports both as freight destinations and as passenger destinations for cruise ships. The state devotes slightly less than $1 billion a year to capital improvements to its ports, much of that covered by fees paid by users.[73]

Water resources. In a state with as much rainfall as Florida, one would think that water management would be primarily aimed at drainage and flood prevention. While these issues are of concern, a larger issue is maintaining a supply of potable water for Florida's cities, especially in central and south Florida. One issue is that Florida's cities get most of their water from wells, and the demand for water has lowered water tables, which has caused salt water encroachment in coastal areas.

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[72] Amy Sherman, "Gov. Rick Scott Says Rail Would Have Cost State Taxpayers $1 Billion to Build," *Tampa Bay Times*, August 11, 2011.

[73] See Florida Ports Council, "Analysis of Global Opportunities and Challenges for Florida Seaports," December 2014.

Florida is divided into five water management districts, and the districts have broad mandates to administer flood protection programs, develop water management plans for water shortages and droughts, and acquire land for programs to provide for water consumption, aquifer recharge, and the management of surface water. As is true of water resources throughout the United States, water is managed through government planning with minimal reliance on market mechanisms to allocate water to its highest-valued uses.

While water issues do take on some local importance in drought conditions, water management has not been a very visible issue in state government policy.

Land Use Planning

Growth Management Act of 1985

While Florida's government has been relatively consistent in implementing policies that correspond with the principles of free markets and limited government, one exception has been in the area of land use planning. As noted earlier, Florida's population grew substantially from the middle of the 20th century through the mid-1980s, and many Floridians expressed concern about the negative effects of growth. Environmental preservation has always been an issue in Florida, which is blessed with an exceptional natural environment, but more immediate concerns were the fact that development was changing the character of the towns and neighborhoods, and that along with growth came increasing traffic congestion.[74] The response was the passage of the Growth Management Act of 1985.

[74] Traffic congestion has not improved since the 1985 act was passed. Hartgen, Fields, and Feigenbaum, "21st Annual Report on the Performance of State Highway Systems." Table 14 ranks Florida the state with the highest highway traffic congestion in the nation.

When the act was passed, most observers thought that its most significant element was the concurrency requirement—that new development would be approved only if the infrastructure to support that development was in place concurrently with the development. While much infrastructure was included, the most binding constraint was on roads. New development could not take place unless the road network was sufficient to handle the additional traffic the development would bring. Concurrency was very popular, both with antigrowth Floridians who thought that a lack of infrastructure would slow growth and with developers. Developers believed that with concurrency in place, local governments would be pressured into funding infrastructure improvements that would support continued growth.[75]

The act required all local governments in Florida to design local comprehensive plans conforming to the act's provisions, which would then be submitted to Florida's Department of Community Affairs (DCA) for approval. Once approved, local development had to conform to the local comprehensive plan. Plan submissions were staggered, with the earliest ones due in 1990, so the provisions of the act did not actually take effect until those plans were submitted five years or more after the act was passed. Among the plans' many required elements was a land use map that showed allowable uses of land for an entire jurisdiction. Florida's Growth Management Act probably made Florida the second most stringent state in terms of statewide land use controls (behind Oregon), so the state's land use policies are a notable exception to the limited government philosophy that has been characteristic of Florida government.[76]

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[75] For a more detailed explanation of Florida's Growth Management Act, see Randall G. Holcombe, "Growth Management in Action: The Case of Florida," in *Market-Based Strategies for Land Use Planning in the Twenty-First Century*, Randall G. Holcombe and Samuel R. Staley, eds. (Westport, CT: Greenwood Press, 2001): 131–54. The history reported in this section is based on this source.

[76] Two things to note are (1) California has a long history of land use controls at the local level, not statewide, as in Florida and Oregon, and (2) looking at figure 1, Florida's limited government philosophy might best be dated back to the early 1990s, after the passage of the Growth Management Act of 1985. Figure 1 shows real per capita appropriations peaking in the early 1990s and leveling off since then.

One of the by-products of the 1985 act was an increase in local government resources devoted to land use planning. Local governments had to add resources to develop their own planning infrastructure to comply with the state mandates, and even though statewide land use planning ended in 2011, the local bureaucracies that were created in response to the 1985 Act remain.

Growth Management in Action

Florida's Growth Management Act never worked as intended, and after two decades it had critics among both its supporters and its detractors.[77] One surprise in the act's administration was that when the initial local comprehensive plans were submitted to the DCA for approval, most of them were rejected on the grounds that they did not do enough to limit urban sprawl. This was a surprise for two reasons. First, when the act was passed, the idea was that comprehensive plans would be drawn up locally, and the DCA's only role would be to see that they conformed to state law. The idea that the DCA would judge whether the plans would be capable of achieving some vague goal like limiting sprawl was not envisioned until it happened. Second, the goal of limiting sprawl was indeed vague. Urban sprawl was mentioned in the act but it was never defined, so whether a plan did enough to limit sprawl was left up to the judgment of the DCA.

The DCA's sprawl policy was subject to legal challenges, and it had its detractors, but it was supported by those who most wanted to limit growth, and the DCA ultimately prevailed. The effort of local governments to design their plans was costly, partly in terms of resources but also in terms of the local politics involved in reaching an agreeable plan, so local governments did not want to see their plans rejected, putting them through the process again. Eventually, local

[77] For a discussion of some potential problems, see Randall G. Holcombe, "Growth Management in Florida: Lessons for the National Economy," *Cato Journal* 10, no. 1 (Spring/Summer 1990): 109–25.

governments learned what the DCA wanted in their plans and designed them to the DCA's specifications. While the initial idea was that plans would be locally designed to fit local conditions, the reality was that this was land use planning from the top down, with the state government calling the shots and the local governments doing the work.

One of the hopes of the Growth Management Act's supporters back in 1985 was that concurrency would require local governments to fund infrastructure, but when the financing did not appear, many jurisdictions had roads that were too congested to legally allow more development, so development was increasingly pushed outside the central core of those jurisdictions to the periphery where roads were less congested, thus creating the very type of sprawl that the DCA said it wanted to prevent. Meanwhile, the DCA's policies seriously limited the amount of land available for development, which raised the price of land and likely contributed to Florida's real estate boom and subsequent bust after the year 2000.[78] Supporters of growth management thought the act was not working as it should and pushed for an overhaul. Detractors agreed it was not working and argued it should be scrapped.

The End of Statewide Growth Management

With the election of Rick Scott as governor in 2010, the opponents of statewide growth management won out. One of Governor Scott's first acts when he was elected was to sign Senate Bill 2156, which abolished the DCA and ended the state oversight of land use planning.[79] Local governments were left to decide for themselves how much land use planning they wanted to do.

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[78] Randal O'Toole, *How Smart Growth Makes Housing Unaffordable* (Oakland, CA: Independent Institute, 2006). For a discussion of the negative effects of government intervention in housing markets, see also Thomas Sowell, *Housing Boom and Bust* (New York: Basic Books, 2010).
[79] "Florida Governor Abolishes Dpt of Community Affairs," *Platinum Real Estate Associates*, June 16, 2011, http://trustplatinum.blogspot.com/2011/06/florida-governor-abolishes-dpt-of.html.

Legally, Florida found itself in its pre-1985 situation, but in practice, the legacy of statewide land use planning remains. While the Growth Management Act and the DCA are gone, the structure devised to carry out the DCA plans remains. First, the local bureaucracies established to design local plans and enforce their elements often want to continue that same type of land use planning. Second, the 11 Regional Planning Councils (RPCs) that coordinate land use planning within their regions have taken on the agenda that the DCA used to manage. The RPCs were created to coordinate transportation networks within their regions and to facilitate obtaining federal transportation funding, but over time the RPCs have expanded their mission. In 2009 the federal government created the Partnership for Sustainable Communities, and the RPCs have adopted a "smart growth" or "new urbanist" orientation to attract federal dollars and to further the goal of sustainability.[80] The restrictive land use policies that characterized Florida for decades are still promoted by the RPCs. For the same reason that Governor Scott closed down the DCA, Florida's government should consider also terminating the RPCs, or at least limiting their activities.

Lessons from Florida's Growth Management Experiment

The design of Florida's growth management following the 1985 act amounted to central planning for land use. In Florida the DCA designed the central land use plan, and local governments designed their plans to conform to the state's plan. However, planners do not have sufficient information to determine the optimal use for parcels of land, but market forces do that

[80] For additional background information on RPCs, their activities, and the policies they promote, see Randall G. Holcombe, "Florida's Regional Planning Councils: Compromising Property Rights and Limiting Florida's Economic Growth" (Policy Brief 34, DeVoe Moore Center at Florida State University, April 2014).

very effectively.[81] Governor Scott made the right decision when he abolished statewide land use planning, but the vestiges of the old system are still compromising property rights, imposing costs on Florida's economy, and impeding development. Both the proponents and the opponents of land use planning agreed that, 25 years after it was enacted, Florida's Growth Management Act was flawed and was not producing the results its proponents had hoped. There is a strong argument for going back now and removing the vestiges of that planning process that still remain, and that hinder Florida's economy.

State and Local Funding

States have varying degrees of decentralization, with some states relying more heavily on state spending while others rely more on local government spending. Looking just at expenditure ratios, Florida relies relatively more on local governments than on state government. Table 14 (page 92) shows that for 2012, the most recent year in the table, state government spending was 38.6 percent of state plus local spending, compared to the national average of 47.4 percent. Looking back to 1992, Florida's ratio of state-to-state and local spending has been consistently below the national average, although in both cases the two-decade trend has been for states to increase their expenditures relative to those of local governments. At the national level the trend has been consistently upward, whereas in Florida, the state government share of state plus local spending peaked in 2005.

It appears that state government expenditures in Florida are relatively low because local governments take on more of the burden, but a closer look reveals that this is not the case.

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[81] There is a substantial amount of research backing this idea. Some excellent work was done by Bernard H. Siegan. For examples, see his *Land Use Without Zoning* (Lexington, MA: D.C. Heath, 1972) and "The Benefits of Non-Zoning," in *Housing America: Building Out of a Crisis*, Randall G. Holcombe and Benjamin Powell, eds. (New Brunswick, NJ: Transaction Publishers, 2009): 33–63.

Florida's state government expenditures are well below the national average. If the state government spent the national average, state government expenditures would be 54.7 percent higher.[82] Holding local expenditures constant, if state expenditures were that much higher, the state share of state plus local spending would be 56.3 percent, placing Florida above the national average. Thus, not only is state spending in Florida below the national average, local government spending is too. State spending in Florida is not low because local governments are shouldering more of a burden than in other states.

There is some evidence that states that are more decentralized and have a smaller state government share of state plus local government spending tend to have lower levels of government expenditures overall.[83] The reason is that greater decentralization means more intergovernmental competition among local governments. There is widespread acceptance of this idea among economists, although some see the intergovernmental competition as a good thing that forces governments to be more efficient and take more seriously the preferences of their citizens, while critics call it a race to the bottom as jurisdictions lower their taxes and cut services with the idea that they can "free ride" off the services of nearby governments.

Policy Recommendations

This study has documented Florida's fiscal conservatism and fiscal responsibility over a period of two decades, a policy that has been popular with many Floridians but criticized by others who argue that greater state government spending in environmental preservation, education,

[82] Florida expenditures and the national average for 2011 are taken from "Total State Expenditures per Capita," Kaiser Family Foundation website, accessed September 11, 2014, http://kff.org/other/state-indicator/per-capita-state-spending/.

[83] See Randall G. Holcombe and DeEdgra W. Williams, "The Cartelization of Local Governments," *Public Choice* 149, nos. 1/2 (October 2011): 65–74, and the references in that article.

infrastructure, and many other areas would benefit Floridians. One way to weigh these conflicting preferences is to observe how people have reacted to the state government's consistent fiscal conservatism. One metric is to look at how Floridians have voted, and they have consistently voted for fiscally conservative candidates. Not only have Florida's House and Senate been majority-Republican since the 1990s, but the majority of legislators have also consistently espoused the fiscal conservatism that has characterized Florida's fiscal policies. It appears that when given the choice, a majority of Floridians choose fiscally conservative legislators (and governors).

Another metric is to look at how people vote with their feet. Florida, the fourth-most populous state, has seen an increase in population from 13.7 million in 1993 to 19.9 million in 2014, an increase of 45 percent. Florida is now the third-most populous state, having recently passed New York, which saw its population increase from 18.2 million to 19.7 million over the same two decades, an increase of only 8 percent. California, the most populous state, saw its population increase by 20 percent over that time period, less than half the percentage increase in Florida. Texas, the second-most populous state, passed New York in those decades and saw its population increase by 42 percent. This is anecdotal evidence to be sure, noting that fiscally conservative Texas and Florida have had substantially higher population growth than the bigger-spending California and New York, but it does show that fiscally conservative states are not chasing away residents with their frugality. Population trends indicate that many people view them as attractive places to live.

Media reports of Floridians complaining about a lack of government goods and services are rare, and when they do surface, they tend to report that it is the government providers who believe their agencies are underfunded. Floridians tend to view living in a relatively low-tax state favorably. Taking a broad view of citizen preferences, looking at both the ballot box and migration trends, no backlash has manifested itself against the state's two decades of fiscal conservatism.

The paragraphs above suggest that on net, Florida's fiscally conservative government appears consistent with a majority of citizens' preferences, but there is a larger and less controversial aspect to fiscal conservatism as well: Florida's government is living within its means. The state has not spent more than it has had coming in. It has not resorted to tax increases to support spending, even when revenues have fallen. And among the states, it has one of the lowest levels of unfunded liabilities. Florida's fiscal conservatism has also come with fiscal responsibility. Often it has been the big-spending states that have also been the least fiscally responsible. Florida's elected officials deserve some credit for their fiscal responsibility.

There are, however, some policy issues looming ahead that Florida's state government will need to address.

Taxing Internet Sales

Continued interest from some legislators in joining the Streamlined Sales Tax project is a potential threat to the autonomy of Florida's largest source of tax revenue. It would place the structure of the sales tax under the control of a multistate consortium, and the SST rules change frequently. The status quo is a far better policy option than joining the SST, so future Florida legislators should resist this initiative.

Pension Reform

The push by the legislature and by Governor Scott toward shifting the state pension system away from a defined benefit system to a defined contribution system will be good for the state and ultimately for state (and local) government workers who are covered by the pensions. Current proposed reforms to convert the Florida Retirement System to a defined contribution plan do not go far enough, however. Many private firms manage defined contribution pension plans, so in addition to shifting the system to a defined contribution plan, it should be completely privatized, shutting down the state system after the last recipient of a defined benefit plan dies and shifting all retirement plans to private firms who specialize in running retirement programs.

Property Insurance

There is widespread agreement about the desirability of reducing the exposure of Citizens Property Insurance Corporation, the state-owned and state-operated insurance company. Floridians have been fortunate that a hurricane has not made landfall in the state since 2005, but a major storm could impose substantial costs on the state. Elected officials should act now to avoid burdening Florida's taxpayers when the next hurricane inevitably strikes.

Land Use Planning

Although Governor Scott signed the legislation that abolished the Department of Community Affairs and eliminated most statewide oversight over land use planning,burdens from the former system remain. Florida's Regional Planning Councils are now pursuing the policies that the Department of Community Affairs oversaw, and local governments built substantial growth management bureaucracies in response to the requirements of the 1985 act. Florida policymakers should rein in the activities of the Regional Planning Councils and push toward a more market-oriented land use policy. The prosperity of Florida depends on the state creating a business-friendly atmosphere, and land use planning is one of the areas in which Florida has fallen well short.

Regulation

Florida is a low-tax and low-spending state, but not a low-regulation state. Regulations always work to constrain the choices people can make, and state policy should be oriented toward reducing regulatory barriers to economic activity. In addition to land use planning, Florida has occupational licensing laws that prevent people from engaging in professions that require little in the way of formal training. Barbers must be licensed in Florida, but how much training does it require to cut hair, and if a barber makes a mistake, how bad are the consequences? Interior decorating is another licensed occupation, but again, what are the consequences of allowing unlicensed decorators to work in Florida? Regulations stand in the way of people making choices for themselves, so any infringements against personal liberty should be resisted and repealed.[84]

In a comparison of states, the Institute for Justice ranked Florida as the fourth-most-burdensome state for occupational licensing requirements, and the seventh-worst when comparing both the burden of licensing requirements and the number of occupations that require state licenses.[85] Should the state really have a say in who can cut people's hair or decorate their homes? Anyone who takes seriously the American ideal of freedom must recognize that freedom has to mean that people be allowed to make what other people might view as bad choices.

Conclusion

When comparing Florida to other states, one thing that stands out is that Florida has been fiscally conservative and fiscally responsible. Florida's state budget has been revenue driven, so when

[84] Patrick McLaughlin, Jerry Ellig, and Dima Yazji Shamoun, "Regulatory Reform in Florida: An Opportunity for Greater Competitiveness and Economic Efficiency" (Working Paper No. 14-09, Mercatus Center at George Mason University, Arlington, VA, March 2014), http://mercatus.org/publication/regulatory-reform-florida-opportunity-greater-competitiveness-and-economic-efficiency.

[85] See tables 7 and 8 in Dick M. Carpenter et al., *License to Work: A National Study of Burdens from Occupational Licensing* (Washington, DC: Institute for Justice, 2012).

tax revenues rose during the housing bubble in the first few years of the 21st century, expenditures rose along with the increase in revenues. But when revenues fell, so did expenditures, rather than being propped up by tax increases as has happened elsewhere. One area in which Florida has not been fiscally conservative, or fiscally responsible, is in its expansion of the state's property insurer, which has become the largest homeowners insurance company in the state. And while fiscal conservatism is often associated with business friendly policies, Florida's land use policies have often been viewed as an impediment to business activity. But stepping back to look at the big picture, Florida has held the line on tax increases, has cut or eliminated taxes, and has seen a decline in both state spending and state government employment per person for decades.

One possible explanation for Florida's fiscal conservatism and fiscal responsibility is that Florida's citizens are fiscally conservative and the state government is responding to voter preferences. But certainly voters in every state would want fiscally responsible governments (though not necessarily fiscally conservative ones). Adding some skepticism to the idea that Florida's fiscal policy is primarily the result of voter preferences, Florida is typically viewed as a swing state that does not lean strongly to the political left or right. Also, voters are often poorly informed, especially about state government finances, so politicians seeking political support can often get it by promising fiscally irresponsible spending that provides visible present benefits in exchange for costs that are pushed into the future, and therefore less visible to voters.[86]

A more likely explanation for differences between Florida and other states is differences in political institutions. While it is common to think about "government" making decisions and establishing public policies, governments do not make decisions—people do. Those public-

[86] See Downs, *Economic Theory of Democracy*; Caplan, *Myth of the Rational Voter*. Caplan argues that voters often vote for policies that play to their biases but work against the public interest.

sector decision makers work within an institutional framework that affects the incentives they have and constrains the choices they can make.

Two big factors that separate Florida from most states are that Florida has no personal income tax and Florida does have term limits for members of its legislature. The absence of a personal income tax has an obvious constraining effect on state government revenues and expenditures.[87] Florida is one of only seven states that do not have a personal income tax[88] and one of fifteen states that have term limits for state legislators. In both cases, Florida is in the minority of states, but it is not completely unique. However, only two other states—Nevada and South Dakota—have both term limits and no personal income tax, and Florida shares with those two states fiscal conservatism in state government expenditures. Nevada is the lowest of all states in state government expenditures per capita, while South Dakota is in the bottom quarter of states, with only eleven other states spending less per capita. This suggests that a combination of term limits and a lack of income tax is associated with fiscal conservatism in government.

Florida also provides for many ways to amend the state constitution, with little restriction on the content of the amendments. The citizen initiative amendment process has had some influence on state public policy. Nevada also allows constitutional amendments through citizen initiatives while South Dakota does not. Perhaps a combination of those three factors (no personal income tax, legislative term limits, citizen initiative constitutional amendments) has cumulative effects on state public policy. This study has focused on Florida, and one cannot draw general conclusions about the effects of institutional differences from a study of only one state. However, it does appear that Florida's fiscal conservatism and fiscal responsibility are not the result of

[87] For a detailed argument about how excluding a tax base like the personal income tax constrains government expenditures, see Geoffrey Brennan and James M. Buchanan, *The Power to Tax: Analytical Foundations of a Fiscal Constitution* (Cambridge: Cambridge University Press, 1980).
[88] Tennessee and New Hampshire do not tax wage income, so if they were included, there would be nine states.

differences in the preferences of Floridians compared with citizens in other states. Also, Florida's fiscal policies cannot be the result of specific individuals who have held leadership positions in Florida's state government because political leaders have changed frequently due to term limits, so it is plausible that the state's institutional framework has had an effect.

Ultimately, the purpose of this study is not to lay out a blueprint for state economic policy, or even to serve as a report card for Florida, listing areas in which the state has done well or poorly. Rather, it is meant as a public policy narrative, to say "here's what has happened in Florida," and to allow readers, informed with that background, to draw their own conclusions about Florida's economic policies over the past several decades.

Table 1. Florida's Population Growth and Per Capita Income Rank

Year	Population	Per capita income (US$)	Per capita income rank
1950	2,771,305	1,299	30
1960	4,951,560	2,016	27
1970	6,789,443	3,998	18
1980	9,746,324	9,921	24
1990	12,937,926	19,437	17
2000	15,982,378	29,079	21
2010	18,801,310	38,345	24

Sources: Population from the US Census Bureau. Per capita income and rank from the US Department of Commerce, Bureau of Economic Analysis.

Table 2. Florida State Government Appropriations

Budget year	Appropriations (billions US$)	Inflation-adjusted appropriations (billions US$)	Real per capita appropriations (US$)	Percentage change from previous budget year
1983/84	11.9	28.2	2,638	
1984/85	13.3	30.2	2,752	4.35
1985/86	14.7	32.2	2,848	3.48
1986/87	16.6	35.8	3,075	7.98
1987/88	18.5	38.4	3,197	3.95
1988/89	21.3	42.2	3,420	7.00
1989/90	23.2	44.0	3,477	1.68
1990/91	27.7	49.6	3,830	10.15
1991/92	28.9	50.0	3,773	−1.50
1992/93	31.7	53.4	3,958	4.92
1993/94	35.5	58.2	4,236	7.01
1994/95	38.8	61.9	4,410	4.10
1995/96	39.1	60.9	4,249	−3.64
1996/97	39.8	60.0	4,104	−3.42
1997/98	43.3	64.2	4,295	4.65
1998/99	45.4	66.1	4,342	1.11
1999/00	48.7	69.1	4,435	2.13
2000/01	51.0	70.1	4,386	−1.10
2001/02	48.5	65.6	4,024	−8.27
2002/03	50.3	66.5	3,999	−0.62
2003/04	53.5	69.4	4,086	2.18
2004/05	57.3	72.0	4,142	1.37
2005/06	63.1	76.6	4,309	4.03
2006/07	73.9	87.5	4,821	11.89
2007/08	71.5	81.4	4,410	−8.52
2008/09	66.2	75.3	4,043	−8.32
2009/10	66.5	73.6	3,938	−2.60
2010/11	70.5	76.9	4,089	3.82
2011/12	69.1	73.2	3,871	−5.33
2012/13	70.0	72.9	3,820	−1.31
2013/14	74.1	76.0	3,944	3.25
2014/15	77.0	77.0	3,951	0.17

Sources: Appropriations compiled annually by the author from the *Tallahassee Democrat* news reports, various issues. The Bureau of Labor Statistics Consumer Price Index—All Urban Consumers was used for the inflation adjustment and population from the US Census Bureau was used to convert appropriations into per capita terms.

Table 3. Florida State Government Appropriations as a Percentage of Gross State Product

Budget year	Appropriations (billions US$)	Gross state product (billions US$)	Appropriations as a % of GSP
1983/84	11.9	136.768	8.70
1984/85	13.3	155.993	8.53
1985/86	14.7	170.894	8.60
1986/87	16.6	185.852	8.93
1987/88	18.5	204.816	9.03
1988/89	21.3	224.848	9.47
1989/90	23.2	241.633	9.60
1990/91	27.7	256.589	10.80
1991/92	28.9	267.669	10.80
1992/93	31.7	284.673	11.14
1993/94	35.5	304.403	11.66
1994/95	38.8	327.167	11.86
1995/96	39.1	346.951	11.27
1996/97	39.8	370.912	10.73
1997/98	43.3	408.673	10.60
1998/99	45.4	432.149	10.51
1999/00	48.7	460.183	10.58
2000/01	51.0	491.450	10.38
2001/02	48.5	519.531	9.34
2002/03	50.3	549.614	9.15
2003/04	53.5	584.377	9.16
2004/05	57.3	635.769	9.01
2005/06	63.1	699.197	9.02
2006/07	73.9	747.470	9.89
2007/08	71.5	773.521	9.24
2008/09	66.2	753.012	8.79
2009/10	66.5	721.684	9.21
2010/11	70.5	728.604	9.68
2011/12	69.1	736.347	9.38
2012/13	70.0	769.007	9.10
2013/14	74.1	800.492	9.26

Source: Department of Commerce, Bureau of Economic Analysis.

Table 4. State Government Employment in Florida

Year	State full-time equivalent	State + local full-time equivalent	Population state employees (%)	Population state + local employees (%)
1993	167,056	665,128	1.22	4.84
1994	170,709	697,914	1.22	4.97
1995	174,717	708,937	1.22	4.95
1996*				
1997	187,457	730,982	1.25	4.89
1998	176,953	736,151	1.16	4.83
1999	179,654	738,952	1.15	4.74
2000	185,170	765,298	1.16	4.79
2001	187,552	803,175	1.15	4.93
2002	184,885	798,194	1.11	4.80
2003	186,861	806,682	1.10	4.75
2004	183,265	824,337	1.05	4.74
2005	185,955	843,284	1.05	4.74
2006	191,215	867,259	1.05	4.78
2007	188,772	890,834	1.02	4.83
2008	189,226	909,649	1.02	4.89
2009	185,630	881,602	0.99	4.72
2010	184,465	911,069	0.98	4.85
2011	184,237	890,474	0.97	4.71
2012	181,262	886,808	0.95	4.65

Source: US Census Bureau, Annual Survey of Public Employment and Payroll.

* There was no Annual Survey of Public Employment and Payroll for 1996. The base reporting period for measuring employment and payrolls was changed from October to March. This change became effective with the 1997 Census of Governments.

Table 5. Florida State Government Taxation (millions of US dollars)

Budget year	State taxation	Corporation income tax	Documentary stamp tax	Intangibles tax	Motor fuel tax	Sales and use tax
1980/81	6,178.1	402.5	209.7	157.8	417.3	2,542.9
1981/82	6,513.0	419.5	189.4	159.0	425.4	2,805.7
1982/83	7,621.6	424.1	207.6	188.1	445.7	3,599.5
1983/84	9,024.9	471.1	292.7	243.3	563.9	4,375.4
1984/85	9,974.9	555.0	297.6	257.3	581.8	4,685.7
1985/86	10,980.0	644.1	334.6	312.0	685.3	5,051.2
1986/87	12,140.8	738.3	408.6	379.7	645.7	5,554.8
1987/88	14,210.4	798.6	435.5	367.0	739.2	7,043.3
1988/89	15,830.0	898.5	447.5	404.1	732.4	7,680.2
1989/90	16,700.2	808.1	429.6	418.2	743.7	8,225.2
1990/91	18,849.4	701.6	470.0	518.7	929.3	8,160.5
1991/92	19,964.4	801.3	504.0	586.2	1,117.0	8,367.9
1992/93	21,978.6	846.6	639.0	783.4	1,206.6	9,425.8
1993/94	23,390.7	1,047.4	774.9	836.0	1,268.1	10,095.9
1994/95	24,253.2	1,063.5	695.2	818.0	1,333.6	10,672.0
1995/96	25,390.2	1,162.7	775.2	895.9	1,395.9	11,461.8
1996/97	26,600.3	1,362.3	844.2	952.4	1,457.8	12,121.8
1997/98	28,617.9	1,395.7	1,045.4	1,184.5	1,516.8	12,975.1
1998/99	30,244.3	1,472.2	1,185.1	1,210.0	1,612.7	13,794.6
1999/00	31,242.0	1,406.5	1,223.5	994.7	1,673.4	14,933.8
2000/01	32,110.4	1,344.8	1,313.5	717.3	1,742.1	15,795.5
2001/02	32,952.4	1,218.5	1,572.5	783.3	1,817.5	16,045.5
2002/03	34,871.3	1,228.1	2,001.5	826.7	1,904.2	16,372.0
2003/04	37,213.4	1,344.8	2,632.1	857.1	2,017.7	17,866.7
2004/05	41,731.8	1,729.7	3,365.2	981.1	2,083.4	19,870.3
2005/06	46,229.6	2,405.4	4,058.3	1,085.0	2,236.1	21,812.4
2006/07	45,897.5	2,443.7	3,032.8	772.6	2,290.5	21,877.2
2007/08	42,823.8	2,216.8	1,954.9	436.3	2,273.8	20,721.3
2008/09	38,682.1	1,833.4	1,122.8	200.0	2,212.0	18,609.5
2009/10	40,829.0	1,790.0	1,078.6	158.7	2,243.8	17,992.1
2010/11	42,708.3	1,874.5	1,156.5	162.5	2,238.3	18,697.1
2011/12	45,108.8	2,010.8	1,261.6	184.6	2,194.5	19,573.3
2012/13	47,868.0	2,081.0	1,643.4	276.5	2,224.8	20,686.4
2013/14*	48,676.0	2,128.2	1,898.0	310.0	2,423.0	21,908.3

Source: Florida Tax Handbook.

* Projected figures.

Table 6. Individual State Taxes as a Percentage of Total Taxes

Budget year	Other	Corporation income tax	Documentary stamp tax	Intangibles tax	Motor fuel tax	Sales and use tax
1980/81	39.6%	6.5%	3.4%	2.6%	6.8%	41.2%
1981/82	38.6%	6.4%	2.9%	2.4%	6.5%	43.1%
1982/83	36.2%	5.6%	2.7%	2.5%	5.8%	47.2%
1983/84	34.1%	5.2%	3.2%	2.7%	6.2%	48.5%
1984/85	36.1%	5.6%	3.0%	2.6%	5.8%	47.0%
1985/86	36.0%	5.9%	3.0%	2.8%	6.2%	46.0%
1986/87	36.4%	6.1%	3.4%	3.1%	5.3%	45.8%
1987/88	34.0%	5.6%	3.1%	2.6%	5.2%	49.6%
1988/89	35.8%	5.7%	2.8%	2.6%	4.6%	48.5%
1989/90	36.4%	4.8%	2.6%	2.5%	4.5%	49.3%
1990/91	42.8%	3.7%	2.5%	2.8%	4.9%	43.3%
1991/92	43.0%	4.0%	2.5%	2.9%	5.6%	41.9%
1992/93	41.3%	3.9%	2.9%	3.6%	5.5%	42.9%
1993/94	40.1%	4.5%	3.3%	3.6%	5.4%	43.2%
1994/95	39.9%	4.4%	2.9%	3.4%	5.5%	44.0%
1995/96	38.2%	4.6%	3.1%	3.5%	5.5%	45.1%
1996/97	37.1%	5.1%	3.2%	3.6%	5.5%	45.6%
1997/98	36.7%	4.9%	3.7%	4.1%	5.3%	45.3%
1998/99	36.3%	4.9%	3.9%	4.0%	5.3%	45.6%
1999/00	35.2%	4.5%	3.9%	3.2%	5.4%	47.8%
2000/01	34.9%	4.2%	4.1%	2.2%	5.4%	49.2%
2001/02	34.9%	3.7%	4.8%	2.4%	5.5%	48.7%
2002/03	36.0%	3.5%	5.7%	2.4%	5.5%	46.9%
2003/04	33.6%	3.6%	7.1%	2.3%	5.4%	48.0%
2004/05	32.8%	4.1%	8.1%	2.4%	5.0%	47.6%
2005/06	31.7%	5.2%	8.8%	2.3%	4.8%	47.2%
2006/07	33.7%	5.3%	6.6%	1.7%	5.0%	47.7%
2007/08	35.5%	5.2%	4.6%	1.0%	5.3%	48.4%
2008/09	38.0%	4.7%	2.9%	0.5%	5.7%	48.1%
2009/10	43.0%	4.4%	2.6%	0.4%	5.5%	44.1%
2010/11	43.5%	4.4%	2.7%	0.4%	5.2%	43.8%
2011/12	44.1%	4.5%	2.8%	0.4%	4.9%	43.4%
2012/13	43.8%	4.3%	3.4%	0.6%	4.6%	43.2%
2013/14*	41.1%	4.4%	3.9%	0.6%	5.0%	45.0%

Source: Florida Tax Handbook.

*Projected figures.

Table 7. State Government Taxes as a Percentage of Gross State Product

Budget year	State taxation	Corporation income tax	Documentary stamp tax	Intangibles tax	Motor fuel tax	Sales and use tax
1983/84	6.60%	0.34%	0.21%	0.18%	0.41%	3.20%
1984/85	6.39%	0.36%	0.19%	0.16%	0.37%	3.00%
1985/86	6.43%	0.38%	0.20%	0.18%	0.40%	2.96%
1986/87	6.53%	0.40%	0.22%	0.20%	0.35%	2.99%
1987/88	6.94%	0.39%	0.21%	0.18%	0.36%	3.44%
1988/89	7.04%	0.40%	0.20%	0.18%	0.33%	3.42%
1989/90	6.91%	0.33%	0.18%	0.17%	0.31%	3.40%
1990/91	7.35%	0.27%	0.18%	0.20%	0.36%	3.18%
1991/92	7.46%	0.30%	0.19%	0.22%	0.42%	3.13%
1992/93	7.72%	0.30%	0.22%	0.28%	0.42%	3.31%
1993/94	7.68%	0.34%	0.25%	0.27%	0.42%	3.32%
1994/95	7.41%	0.33%	0.21%	0.25%	0.41%	3.26%
1995/96	7.32%	0.34%	0.22%	0.26%	0.40%	3.30%
1996/97	7.17%	0.37%	0.23%	0.26%	0.39%	3.27%
1997/98	7.00%	0.34%	0.26%	0.29%	0.37%	3.17%
1998/99	7.00%	0.34%	0.27%	0.28%	0.37%	3.19%
1999/00	6.79%	0.31%	0.27%	0.22%	0.36%	3.25%
2000/01	6.53%	0.27%	0.27%	0.15%	0.35%	3.21%
2001/02	6.34%	0.23%	0.30%	0.15%	0.35%	3.09%
2002/03	6.34%	0.22%	0.36%	0.15%	0.35%	2.98%
2003/04	6.37%	0.23%	0.45%	0.15%	0.35%	3.06%
2004/05	6.56%	0.27%	0.53%	0.15%	0.33%	3.13%
2005/06	6.61%	0.34%	0.58%	0.16%	0.32%	3.12%
2006/07	6.14%	0.33%	0.41%	0.10%	0.31%	2.93%
2007/08	5.54%	0.29%	0.25%	0.06%	0.29%	2.68%
2008/09	5.14%	0.24%	0.15%	0.03%	0.29%	2.47%
2009/10	5.66%	0.25%	0.15%	0.02%	0.31%	2.49%
2010/11	5.86%	0.26%	0.16%	0.02%	0.31%	2.57%
2011/12	6.13%	0.27%	0.17%	0.03%	0.30%	2.66%
2012/13	6.22%	0.27%	0.21%	0.04%	0.29%	2.69%
2013/14*	6.08%	0.27%	0.24%	0.04%	0.30%	2.74%

Source: Florida Tax Handbook.

* Projected figures.

Table 8. Major Florida Government Expenditures as a Percentage of Total State Government Expenditures

Budget year	K–12 education	Higher education	Public assistance	Medicaid	Corrections	Transportation	Other
2012/13	18.8%	7.1%	0.3%	30.6%	4.2%	11.0%	28.1%
2011/12	21.8%	8.2%	0.3%	29.2%	4.4%	9.6%	26.7%
2010/11	20.5%	7.7%	0.3%	30.0%	4.8%	9.4%	27.2%
2009/10	19.5%	9.3%	0.3%	26.2%	4.9%	9.9%	29.8%
2008/09	20.2%	9.9%	0.2%	23.2%	4.8%	10.7%	31.0%
2007/08	19.7%	8.9%	0.2%	21.7%	4.4%	11.7%	33.3%
2006/07	20.0%	8.1%	0.3%	22.5%	4.3%	12.8%	32.0%
2005/06	19.7%	7.9%	0.4%	23.8%	3.5%	12.9%	31.9%
2004/05	20.6%	8.4%	0.4%	25.2%	3.7%	11.0%	30.6%
2003/04	20.4%	9.6%	0.5%	22.3%	3.6%	10.1%	33.4%
2002/03	18.8%	11.4%	0.5%	20.0%	3.5%	12.2%	33.6%
2001/02	18.5%	9.0%	0.4%	17.0%	3.2%	12.7%	39.2%
2000/01	18.7%	9.5%	0.5%	15.7%	3.4%	13.0%	39.1%
1999/00	18.9%	9.8%	0.6%	15.0%	3.6%	12.0%	40.1%
1998/99	17.6%	6.6%	1.0%	15.2%	3.7%	12.4%	41.5%
1997/98	18.8%	7.7%	1.5%	15.7%	3.6%	11.8%	40.8%
1996/97	17.9%	7.2%	2.0%	15.6%	3.6%	12.1%	41.6%
1995/96	17.2%	6.6%	2.1%	15.3%	3.8%	11.9%	43.0%
1994/95	18.6%	7.8%	2.4%	15.9%	3.2%	11.8%	40.3%
1993/94	17.6%	7.9%	2.5%	15.2%	2.8%	13.3%	40.7%
1992/93	23.7%	7.4%	2.5%	14.3%	3.2%	10.6%	38.3%
1991/92	24.8%	9.3%	1.9%	12.1%	3.7%	10.2%	38.1%
1990/91	24.5%	9.9%	1.6%	10.4%	3.8%	7.3%	42.4%
1989/90	25.3%	8.8%	1.7%	9.4%	3.1%	11.3%	40.3%

Source: The National Association of State Budget Officers.

Table 9. Florida's K–12 Public School Enrollment and Pupil/Teacher Ratio

School year	State enrollment	Percentage change	State pupil/teacher ratio	United States pupil/teacher ratio
2011/12	2,668,156	0.94%	15.2	16.0
2010/11	2,643,347	0.33%	16.0	15.7
2009/10	2,634,522	0.13%	16.3	16.1
2008/09	2,631,020	−0.13%	14.5	15.8
2007/08	2,666,811	−0.18%	15.6	16.8
2006/07	2,671,513	−0.13%	16.9	16.6
2005/06	2,675,024	1.45%	17.0	16.2
2004/05	2,639,336	2.00%	17.0	15.8
2003/04	2,587,628	1.89%	17.9	16.9
2002/03	2,539,929	1.58%	18.4	16.8
2001/02	2,500,478	2.79%	17.2	16.0
2000/01	2,434,821	2.24%	17.2	16.0
1999/00	2,381,396	1.87%	17.2	16.2
1998/99	2,337,633	1.90%		
1997/98	2,294,077	2.31%		
1996/97	2,242,212	3.03%		
1995/96	2,176,222	3.19%		
1994/95	2,108,968	3.34%		
1993/94	2,040,763			

Source: National Center for Education Statistics. Data before 2000 not available.

Table 10. State Expenditures per Pupil

School year	Expenditures per pupil* (US$)	National expenditures per pupil* (US$)
2011/12	9,752	11,864
2010/11	9,810	11,824
2009/10	9,572	11,665
2008/09	9,576	11,223
2007/08	9,253	10,557
2006/07	8,437	9,963
2005/06	7,539	8,973
2004/05	6,492	8,514
2003/04	7,099	8,041
2002/03	6,729	7,734
2001/02	6,447	7,376
2000/01	5,829	6,168
1999/00	5,606	(*missing*)
1998/99	5,497	5,787
1997/98	5,490	5,541

Source: National Center for Educational Statistics.

* Dollar figures adjusted for cost of living using the Bureau of Labor Statistics Consumer Price Index.

Table 11. Florida Medicaid Beneficiaries and Expenditures

Year	Number of beneficiaries	Beneficiaries as a percentage of total population	Percentage of medicaid funds provided by the state	Total net medicaid expenditure (millions of US$)
2012			43.9%	17,794
2011	3,829,173	20.1%	37.3%	18,127
2010	3,656,334	19.4%	32.2%	17,261
2009	3,261,031	17.5%	32.5%	14,990
2008	2,870,985	15.5%	43.1%	14,601
2007	2,905,180	15.8%	41.1%	13,450
2006	3,123,301	17.2%	41.0%	12,620
2005	3,166,071	17.7%	41.0%	13,218
2004	2,952,363	17.0%	38.9%	12,789
2003	2,743,368	16.1%	39.6%	10,925
2002	2,676,235	16.0%	43.4%	9,871
2001	2,471,771	15.1%	43.3%	8,557
2000	2,372,585	14.8%	43.4%	7,525
1999	2,255,182	14.3%	44.1%	6,726
1998			44.3%	6,364
1997			44.1%	6,270

Sources: Medicaid Statistical Information System State Medicaid Summary: Centers for Medicare and Medicaid Services; Medicaid Financial Management Report: Centers for Medicare and Medicaid Services; US Census Bureau. Data on beneficiaries unavailable for 1997 and 1998.

Table 12. Sources of Annuitants in the Florida Retirement System Defined Benefit Program, 2012

Former employer	Number of recipients	Percentage of total
State	68,744	20.6
State university	16,177	4.9
County	73,351	22.0
School district	154,236	46.3
Community college	10,953	3.3
City/special district	9,903	3.0
TOTAL	333,364	

Source: Florida Department of Management Services, Florida Retirement System Report, 2011–2012, 69.

Table 13. Florida Retirement System Membership and Funding

Fiscal year	Pension plan members	Investment plan members	FRS total membership	Pension plan funded (%)
2012/13	517,756	105,255	623,011	85.9%
2011/12	540,701	103,045	643,746	86.9%
2010/11	557,585	97,782	655,367	87.5%
2009/10	572,888	95,528	668,416	87.9%
2008/09	590,249	93,562	683,811	88.5%
2007/08	598,648	81,654	680,302	106.7%
2006/07	600,177	64,642	664,819	107.0%
2005/06	598,364	50,015	648,379	107.0%
2004/05	597,666	35,976	633,642	108.8%
2003/04	595,379	24,785	620,164	112.1%
2002/03	611,455	NA	611,455	114.2%
2001/02	612,391	NA	612,391	115.0%
2000/01	598,511	NA	598,511	117.9%
1999/00	591,916	NA	591,916	117.8%
1998/99	600,368	NA	600,368	113.4%
1997/98	589,791	NA	589,791	
1996/97	586,796	NA	586,796	

Source: Florida Department of Management Services, Florida Retirement System Reports, 1996–2012. The data for percentage of pension plan funded was not available for 1997/98 or 1996/97.

Note: Investment plan is the state's name for its defined contribution plan.

Table 14. State Spending as a Percentage of State Plus Local Government Spending

Year	State spending as a % of state + local spending	Average state spending as a % of average US state + local spending
2012	38.60%	47.40%
2011	39.60%	47.70%
2010	38.70%	46.90%
2009	36.10%	44.80%
2008	36.50%	44.40%
2007	35.90%	44.20%
2006	40.50%	45.00%
2005	41.00%	45.10%
2004	37.40%	44.90%
2003	38.50%	45.10%
2002	38.10%	44.80%
2001	38.10%	44.10%
2000	36.90%	43.40%
1999	36.00%	42.70%
1998	35.80%	42.70%
1997	35.80%	43.20%
1996	36.90%	43.60%
1995	36.40%	44.20%
1994	36.00%	43.70%
1993	36.20%	43.70%
1992	34.70%	43.50%

Source: US Census Bureau State and Local Government Finances.

Figure 1. Real Per Capita State Government Appropriations, 1983–2014

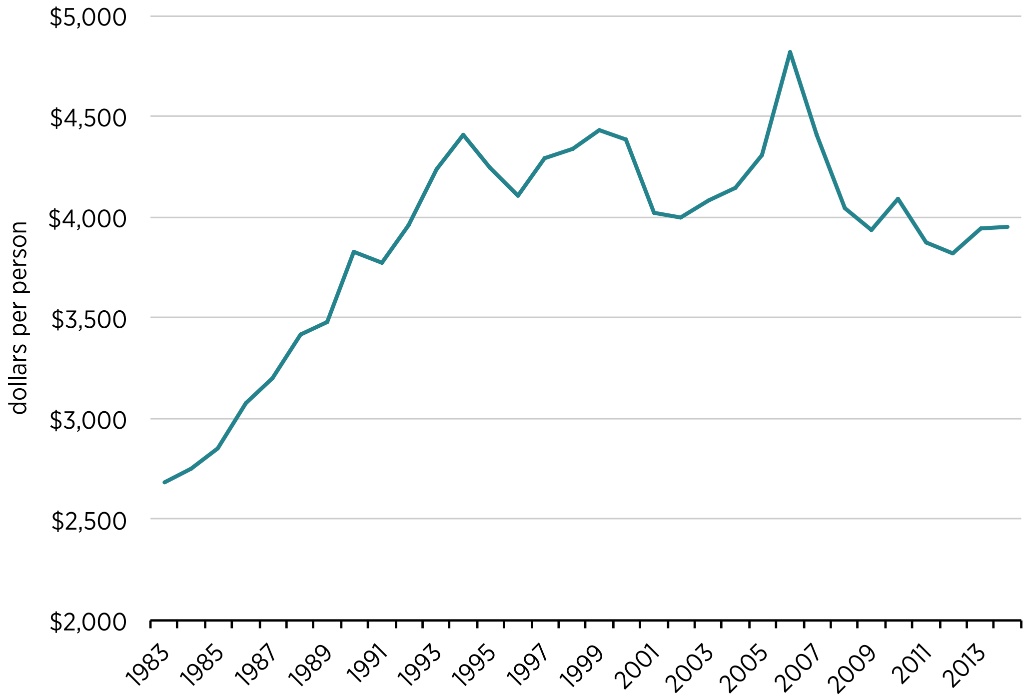


Figure 2. State Government Appropriations as a Percentage of Gross State Product

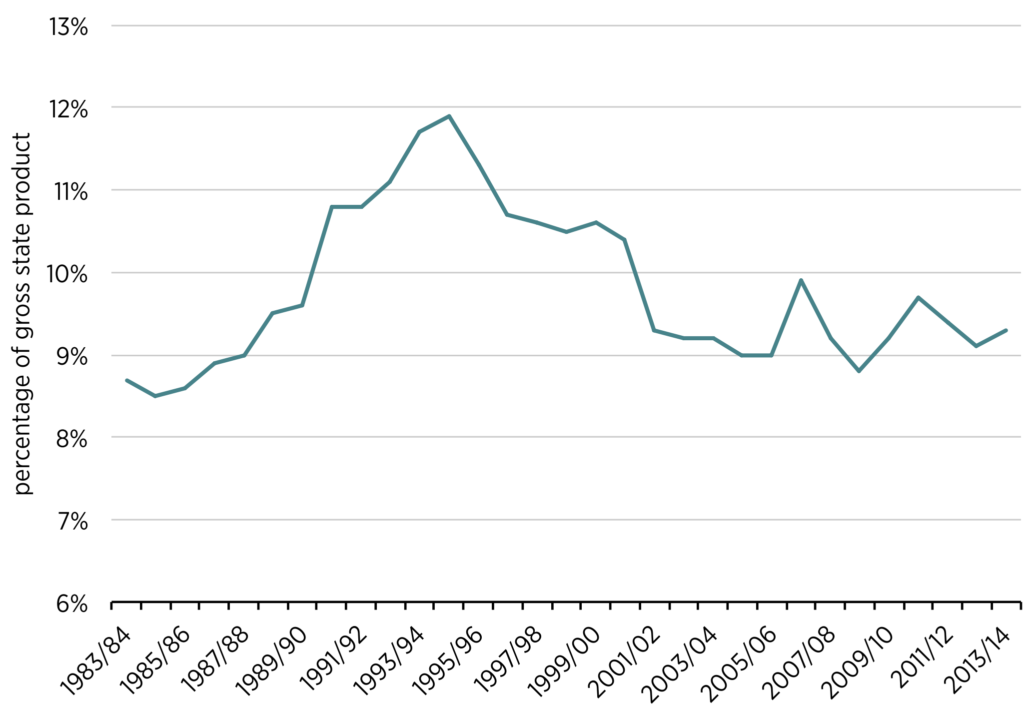


Figure 3. State Government Employees as a Percentage of Florida's Population

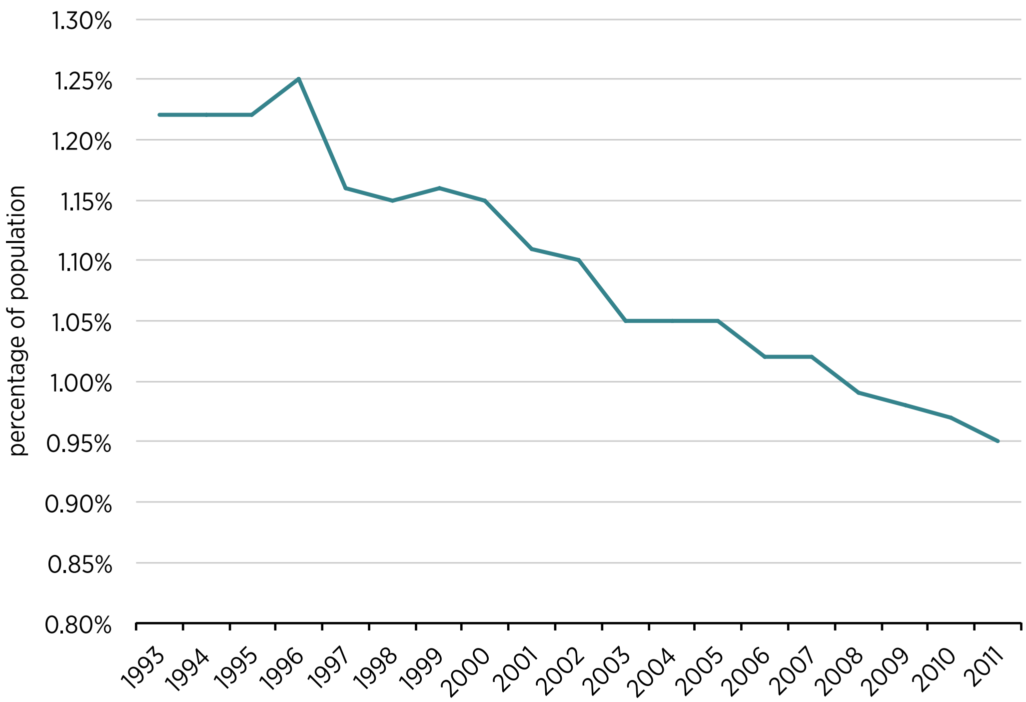


Figure 4. State and Local Government Employees as a Percentage of Florida's Population

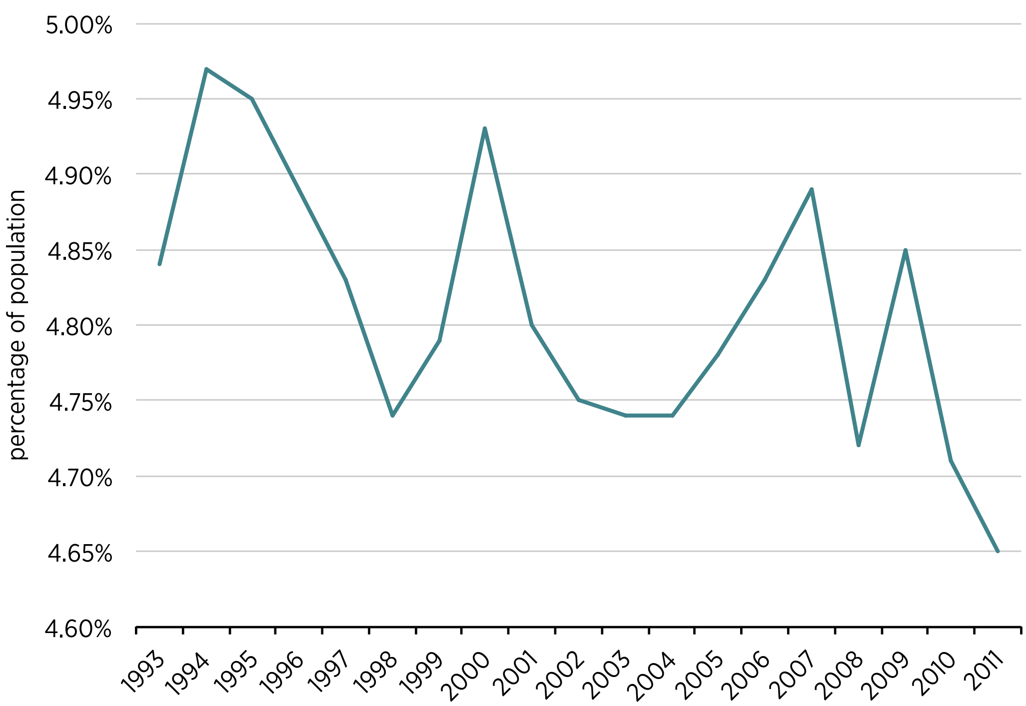
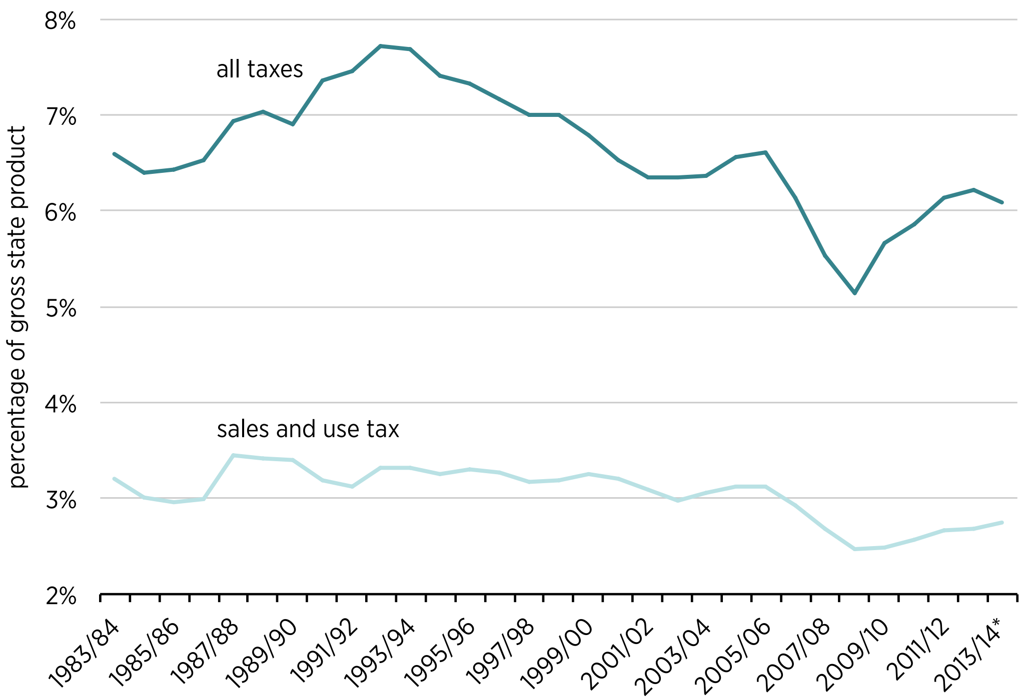


Figure 5. All State Government Taxes and Sales and Use Taxes as Percentages of Gross State Product



* Projected figures.

Figure 6. Education and Medicaid Expenditures as Percentages of Total State Government Expenditures