LeRoy Collins Institute Recommendations

Presented to Florida Taxation and Budget Reform Commission
November 1, 2007

These recommendations were discussed and approved by the LeRoy Collins Institute Board October 25, 2007. Many are updates of recommendations in our *Tough Choices* report of November 2005.

SERVICES:

(1) **Reassess likely Medicaid growth for planning future budget liabilities**. The two years since our report have seen some considerable cooling of overheated growth in state Medicaid obligations. That has provided welcome budget relief as revenue growth stalled. Looking out a few years, we still think the state should have a working assumption of whether the current muted growth will continue or pick back up. A 25-year history shows that growth typically slows for a few years, then resumes, often at a double-digit rate. (Also, if Florida chooses NOT to fully fund Medicaid in a given year, it leaves a federal match of nearly 60 percent on the table). The Bush-era experiment in "privatizing" Medicaid in several counties, allowing some recipients to choose among HMO's and other providers is only now (October 2007) being evaluated. The first result: there is not enough evidence to tell whether it is working to deliver quality service or saving money. We need to know.

(2) **Modify the class-size amendment. K-12 enrollment growth will resume.** A surprise halt in enrollment growth **--** actually a decline in some counties – in the last two years took the heat off the multi-million dollar expense of moving to classroom by classroom compliance. When the Institute's Board of Trustees met for a day's briefing on educational issues in August 2007, we learned that the Department of Education's working estimate is that enrollment growth will resume over the next five years perhaps at not quite as high a rate as previously. Thus the huge expense of exact compliance with the class-size amendment has been deferred for a few years, but it has not gone away. We continue to believe a somewhat more lenient standard – say, school-by-school compliance – would meet its main goals and free money for more strategic investments in K-12 improvements

(3) **Redress recent under-funding of higher education**. Our updated data show that universities and community colleges are even more under-funded than before. Low tuition and stingy state support for public universities have compromised their performance even as the number of students seeking admission increases. Community colleges are hard-pressed to maintain the tradition of open-door admissions as enrollments rise and appropriations do not. Florida needs many year of aggressive tuition increases (10 percent or more) to begin to approach the national average -- and budget increases as well. Right now we are significantly disinvesting in Florida's future economic vitality by trying to the higher education job on the cheap.

(4) (**New) Reform Bright Futures**. Since it began a decade ago, the Bright Futures scholarship program has been a candidate for reforms that would tighten its focus and control expenses. Without question, Bright Futures has increased educational opportunity for at least some of its recipients and provides high school students an incentive to stay in school and work hard on academics. Nonetheless, the grant should be for a fixed amount, raised periodically, rather than pegged to tuition increases. Otherwise it acts as a brake on tuition increases. Also the definition for merit needs to be set higher since the cutoff scores are actually below average for students at a number of Florida universities. While Bright Futures can claim some success in attracting the best students to stay in state, full stipends to families with no financial need are not necessary. Even with cuts in Bright Futures grants and increases in tuition our universities will remain a bargain.

REVENUES

(5) **Join the interstate Streamlined Sales Tax Project to increase tax collection on Internet sales**. Even as Internet sales of goods increase year to year, Florida has yet to join the Streamlined Sales Tax Project, a compact among states to simplify differing tax codes and facilitate collection directly from Internet retailers. A Florida Tax Watch study in April 2007 estimates that Florida is leaving more than $2 billion in annual revenue on the table. By 2008, the study says, the revenue foregone will have doubled in the five years since 2003. (In-state purchasers are supposed to pay sales tax on what they buy over the Internet. In practice, this is unenforceable, and they don't). For a state whose revenue base is so heavily dependent on sales taxes this is a very significant omission. As the Tax Watch paper observes, this is a formula for erosion of that base, now and indefinitely for the future. As a matter of equity, we also fail to see the point of giving the Amazons and L.L. Beans a 6 ½ to 7 ½ percent price advantage over Florida bricks-and-mortar retailers or out-of-state chains who operate Florida stores.

(6) Add new construction concurrently to the tax rolls. With the Florida citizenry in virtual revolt over increases in their local property taxes, the state continues to give the developers and occupants of new buildings a break of as long as a year before their property is taxed. As a matter of equity and public policy, this makes no sense to us. And the amount of money left on the table is not insignificant – probably several hundred million dollars a year.

DEMOGRAPHIC

(7) **Welcome the coming wave of affluent baby-boomer retirees but do not provide tax breaks or incentives.** New data indicate that Florida has experienced a personal income spike from 2003 to 2006. If this meant that there has been a sudden surge in well-paid jobs, that would be great, but a much more likely explanation is that higher home prices brought higher income empty-nesters and retirees. Our own analysis and many others suggest that a surge of Baby-Boomer retirees is virtually a sure

thing, even if Florida gets a smaller share of that cohort than in years past. Also, Florida remains very attractive as a part-time or full-time retirement or extended vacation destination for Internationals, particularly at current exchange rates. These factors considerably brighten the prospects for stronger revenue growth after the next several difficult years. But we need to be doubly sure that growth and those retirees opting for Florida instead of home states with higher and/or more diverse taxes pay their fair share here.

WORTH CONSIDERATION

These are ideas we believe have merit but have not been able to research fully as yet:

(8) **An updated assessment of accumulated infrastructure needs**. (services). When *Tough Choices* was published two years ago, we cited a Department of Transportation study that Florida should be spending $2 to $4 billion more annually to keep up with highway needs. We are not aware of a more recent estimate or one that would include water and other needs. But it is safe to assume an infrastructure deficit continues and is most likely getting worse.

(9) (**new) Reduce the state's potential property reinsurance commitment** (services). In an effort to provide property insurance relief, the legislature created a reinsurance fund in 2007. The action did not, as hoped, prevent another round of rate increases by private insurers. Still, the state has imposed on itself a huge new potential liability in the case of a catastrophic hurricane. For the integrity of the budget process, finding ways to minimize state exposure should be a high priority.

(10) **Assess the adequacy of impact fees. Is growth paying its way? Would state statute or guidance help?** Since our report, many counties have made substantial increases in impact fees for school construction, and the enrollment lull temporarily eased that pressure. Florida's patchwork of fees remains uneven, and, we suspect, inadequate.

(11)(**new) Recapture Greenbelt tax breaks if agricultural lands are sold for development**. Many other states do so while Florida continues to encourage land-banking with an untaxed windfall if the acreage is sold at a much higher valuation for development. Recapture could be combined with broadened use of conservation easements, preserving more of Florida's remaining vacant land in its natural state.

In summary, we believe that there are ways to address the progressive narrowing of Florida's tax base and the shortfall to spending needs it will continue to create -- at the same time providing some tax relief and equity to a great many Floridians.