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FLORIDA
*Taxation & Budget
Reform Commission*

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*A Program for Reform of
FLORIDA Government*

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An Overview

THE Florida Taxation and Budget Reform Commission has completed the first phase of its review of state taxation and spending policies. It reached a clear conclusion: *The public has lost confidence in the state's ability to spend money wisely. The state must reform itself before it can ask more of its citizens.* State policy-makers must be able to

show that everything that can be done is being done to get the most out of every taxpayer's dollar.

This can only be done with major reform. There must be meaningful changes in the planning, budgeting and appropriations processes. They must not only be made more open, but more understandable and less susceptible to manipulation. In addition, an effort must be made to make government agencies more efficient and productive. Managers and employees must be given the incentive to do well. Programs must be judged on their performance.

The Constitution empowers the Commission to make recommendations to the Legislature and to put constitutional issues directly before the people. The constitutional

language crafted by the Legislature gives the Commission broad constitutional charge to examine and to recommend changes in Florida's tax structure, budgetary and spending processes, governmental structure, and planning and

The public has lost confidence in the state's ability to spend money wisely. The state must reform itself before it can ask more of its citizens.

needs assessment processes.

This report offers the Commission's first recommendations in a program for the reform of Florida government, a program which ultimately will include both taxation and budget reform. The recommendations in the report are directed to the Governor and Legislature. Most require only statutory action. A few suggest the Legislature initiate a constitutional change. All aim to make a more accountable, informed, and effective government.

The Commission has adopted 14 major proposals, each with several recommendations. They call for scores of changes in state government. The recommendations are set out in detail in the report. In brief though, the recommendations have several broad objectives:

Transparency

Florida has been a pioneer in open government. We need an open budgetary process, one the people can understand. Only from openness can come trust. The state budget process, as a whole, obscures as much as it reveals. The Commission has adopted a number of reforms designed to make state government more transparent to its citizens. These include proposals to:

- Establish a "waiting period" between receipt of the Report of the Conference Committee on the General Appropriations Bill and its consideration by each house of the Legislature.
- Change the format of the General Appropriations Bill to allow easy identification of the operating and capital commitments to state, local, and federal programs.
- Subject all appropriations requests, but especially those for special projects, to a rigorous review using a number of standard, formalized criteria.
- Incorporate true annualized costs in all budget requests and in the budget as enacted.
- Eliminate "double counting" in appropriations totals to provide a better picture of anticipated state expenditures.

- Mandate the Governor publish a final budget, after the veto process, which includes all appropriations and provides a comparison with prior years.

We need an open budgetary process, one that people can understand.

- Make all appropriations subject to the Governor's line-item veto.
- Give the Governor adequate time to review the budget and exercise the line-item veto wisely.

Modernization

Florida's budgeting process is in need of repair. This State's collegial system of executive control, exercised through the Cabinet, has its virtues, but it complicates executive administration of the budget and needlessly diffuses responsibility for budgetary decision making. To the maximum extent possible, the Governor, as the state's chief executive officer, must be in charge of directing the budgetary process in all its stages. As important, the budgetary process must provide a prudent framework within which to conduct the state's affairs. The current system fails this test in a number of areas and should be modernized. The Commission suggests reforms to:

Executive Function

- Make the Governor more accountable for managing the agencies under his supervision and improve the information used in the budgetary process.
- Provide the Executive Branch and the Governor with more operational flexibility in administering the budget.

Budget Reform

- Create an adequate working capital or "rainy day" fund and limit its uses.
- To the maximum extent reasonably possible, abolish state trust funds, provide for earmarked funds within the framework of generally accepted accounting principles, and subject a greater portion of the programs in the budget to increased accountability.

Accounting and Management Information

- Implement the state's integrated accounting and management information system (FFAMIS) within five years.

accounting principles within three years.

- Create a decision support information system for the proper management of government decision making by the Executive and Legislature.
- Upgrade the capacity of the Department of Revenue to collect unpaid taxes and assist taxpayers in identifying and meeting their liabilities.

Operational Flexibility

State and local governments have diverse, broad responsibilities. In many notable ways, their ability to discharge these responsibilities is hampered by existing law and practice. Where appropriate, the Commission believes such impediments should be removed and greater latitude given to public managers. The Commission believes operational flexibility can be fostered by proposals to:

- Provide agencies with greater flexibility to transfer monies within major funds appropriated by the Legislature.

There must be a clear, well-defined set of relationships linking plans, budgets, appropriations, and performance.

- Require the state budget, like those of local governments, to follow generally accepted
- Allow the Administration Commission to delegate budget authority to the

Governor's Office of Planning and Budgeting.

- Give the Administration Commission the flexibility to establish and consolidate divisions of state agencies.
- Give city and county governments the flexibility to pay for growth by removing the referendum requirement from the Local Option Infrastructure Sales Tax and eliminating the restriction on their use of revenues.

Performance Standards

Governments are judged, in part, by how well they perform. Governmental performance is often difficult to assess. The Commission believes the effort must be made to incorporate performance standards into public operations. Public managers and the programs they administer must have performance standards. These standards must be enforced. There must be a clear, well-defined set of relationships linking plans, budgets, appropriations, and performance. Some of the Commission's specific proposals in this area are designed to:

- Hold the Executive Branch and the Governor more accountable for increasing employee productivity and improving agency performance.

Table 1: A Summary List of Commission Proposals

1. Improved Taxpayer Compliance
2. Local Option Sales Tax Flexibility
3. Comprehensive Plan and Agency Functional Plan Processes
4. Executive Branch Budget Authority and Responsibility
5. Annual Budgeting
6. Appropriations Review Process
7. General Appropriations Bill Format
8. 72-Hour "Cooling Off" Period
9. Abolition of Selected Trust Funds
10. Working Capital Fund
11. Quality Management and Accountability Programs
12. Implementation of Policy Analysis and Agency Review
13. Uniform Program Evaluation Criteria
14. Performance Audit Follow-Up

- Improve the evaluation of agencies' performance.
- Streamline the state's planning process to simplify agency functional plans and provide a more direct tie between performance and budget requests.

Taken as a whole, these recommendations represent a first step toward fulfilling the Commission's responsibilities. They are an effort to reform a critical part of Florida's government. They are not definitive, merely a initial step.

The Commission still has much to do. Tough choices regarding taxation and the structure of government lie

ahead. Yet the Commission believes these proposals form a strong foundation for further reform. Government is the steward of the public's purse and will be judged as such. An atmosphere of public distrust of government will inevitably deter well intended efforts to meet the challenges of growth.

We invite the Governor and the Legislature to address these recommendations, improve them, and join us in taking the first step in a program of reform envisioned by the more than two million Floridians who voted to create the Taxation and Budget Reform Commission.

CHAPTER TWO

Background & Introduction

THE Taxation and Budget Reform Commission was created by vote of the people in 1988. Its purpose, writ short, is to examine and make recommendations on questions of taxation and spending. This is its first report to the Governor and Legislature.

Introduction

Matters of taxation and spending have never been incidental to government. It is useful to remember what Hamilton wrote in *The Federalist Papers* (30), over 200 years ago:

"Money is, with propriety, considered as the vital principle of the body politic; as that which sustains its life and motion, and enables it to perform its most essential functions. A complete power, therefore, to procure a regular and adequate supply of it, as far as the resources of the community will permit, may be regarded as an indispensable ingredient in every constitution. From a deficiency in this particular, one of two evils must ensue: either the people must be subjected to continual plunder; as a substitute for a more eligible mode of supplying the public wants, or the government must sink into a fatal atrophy, and in a short course of time, perish."

In the past though, the centrality of public finance to government was often overlooked. The growth of government has changed this. Now, the importance of the public

household as a distinct realm of economic activity is clear. It has come to the fore, expressed in the annual growth of governmental budgets.

Florida's governments are no exception. State appropriations grew from \$7.8 billion in 1980 to \$23.2 billion in 1990. County governments in the state recorded \$4.3 billion in total expenditures and uses in 1981; by 1989, they were at \$12.1 billion. Total municipal expenditures and uses grew from \$4.5 billion to \$8.7 billion over the same period.

The growth in spending has been driven by a number of factors. Keeping pace with inflation has accounted for a substantial portion of the increase. Population growth clearly has had its impact. But it is also true that governments at all levels now provide a broader mix of services. Services have been improved, at a cost.

Increasingly these costs are of concern. The state's continued population growth has raised a number of serious questions in the last few years about the way in which citizens are taxed and their dollars are spent. Can state and local governments continue to provide the services needed by their citizens? What proportion of the whole economy should government comprise? How much can a society be taxed and in what way before its economy suffers? What services must be provided to promote the growth of an economy and the well being of its citizens? How should the burden of costs be shared? How much should be used for each purpose? How can operating objectives be achieved at the lowest possible costs? Most fundamentally, does the situation call for a fundamental reform of taxation and spending among Florida's governments?

Summary

- Taxation and spending are central to contemporary government.
- Budgets are the focus of the fiscal equation relating taxation to spending.
- Reform must deal with both sides of the fiscal equation and insure the process is accountable to the general public.
- It is necessary to study the budgeting process in order to determine how resources can be more effectively used and how government can more clearly explain its spending priorities and taxing decisions to taxpayers.

It is necessary to study the budgeting process in order to determine how resources can be more effectively used and how government can more clearly explain its spending priorities and taxing decisions to taxpayers. These are critical questions. They reverberate in debates affecting all levels of government. They cannot be avoided precisely because they are fundamental to contemporary society. But neither can they be approached haphazardly.

Taxation and spending lie at the heart of the modern polity. The scale and scope of government is tied in large measure to its ability to raise taxes and to the services it provides. Taxation has become, in the minds of many, an arcane science. *The complexities of governmental programs and spending are enormous. The difficulties of grappling with taxation and spending policies are such that they are often studied in isolation from one another.* Tax study commissions, for example, are quite common. But their importance for government, the economy and citizens can only be understood in conjunction with one another. Reform is not just a matter of rethinking government's spending habits. Nor can it focus exclusively on taxation. Real reform must proceed from an understanding of the way in which financial policy attempts to secure the future well being of the state.

There are many ways to arrive at this understanding. Budgets provide a unique starting point. They are the focus of the fiscal equation

relating taxation to spending. Budgets, by their very nature, represent choices to spend money on this, rather than that. They embody decisions about size of the burden of collective spending and how it is to be

Budgets are the focus of the fiscal equation relating taxation to spending.

born. Governmental budgets represent a series of decisions balancing widely shared expectations about social consumption with the state's economic growth and productive capacity.

Budgets manage on-going activities and control spending. They are central to the contemporary public household as a means for the allocation and reallocation of resources. Budgets incorporate plans for the priority use of resources and they establish the basis for governmental accountability. In their formulation and execution, they necessarily embody decisions about the relative role of the Executive and the Legislature. Budgets matter because, as Rudolf Goldscheid once noted, "the budget is the skeleton of the state stripped of all misleading ideologies." In short, governmental budgets offer a singular venue for understanding matters of taxation and spending.

Budgets provide a focus within which the balance between taxation and spending can be rethought, renegotiated and reinvigorated. But it is important to realize that a budget is more than just a

document, more than just a set of policies. It is a way of doing business. The budgetary process itself affects taxation and spending in palpable, though often subtle, ways. The process can be, and often is, fundamental to the legitimacy of policy whatever the outcomes. It often matters more how and why some activity was funded than whether it was funded. The reform of financial policy must deal with procedural and substantive issues.

A government's budget provides a context for decision making, a tool for planning, a method of managing the relationship between goals and activities, and a means of preventing abuses with the public purse. In important ways, budgetary devices cannot be separated from financial policy.

In another of *The Federalist Papers* (51), the point was made this way:

"It may be a reflection on human nature, that such devices should be necessary to control the abuses of government. But what is government itself, but the greatest of all reflections on human nature? If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the greatest difficulty lies in this; you must first enable the government to control the governed; and in the next place oblige it to control itself. A dependence on the people is, no doubt, the primary control on the government; but experience has taught mankind the necessity of auxiliary precautions."



BACKGROUND & INTRODUCTION

Taxation and spending policies are central to contemporary government. In a state awash in change, they cannot be neglected. Taxation must be built on the economy that supports it. Spending must be tailored to underlying social expectations. These are the shifting sands upon which the statutory and constitutional bases of taxation and spending must stand. The need for periodic, close scrutiny is clear. The Taxation and Budget Reform Commission was created, in part, to conduct this inquiry.

But the centrality of taxation and spending suggests it is not enough to consider such policies in isolation from the institutions that shape them. The legitimacy of policy rests as much on "how it is formed" as "what it does." In a democratic polity, accountability must be the bedrock of all policy. And accountability must deal both with the substance of taxation and spending and means by which such policies are reached and implemented. Reform of Florida's financial system must include such issues, despite the breadth of concerns they entail.

Antecedents

Re-examining the character of and balance between taxation and spending policy has taken on new urgency for most state and local governments in the last few years. The 1980s were a period of significant fiscal realignment in the federal system, with adverse consequences for the states and their localities. Over the decade, the national government reduced funding in scores of grant programs. It passed on an

increasing number of unfunded mandates and preempted state flexibility on a variety of fronts. In attempts to resolve the national deficit, it restricted the deductibility of various state and local taxes and placed limits on tax-exempt financing.

The actions of the national government have narrowed the revenue options available to state and local governments and increased the pressure on their spending. The effects are felt in several ways. Most local governments in Florida no longer receive any direct federal assistance. State taxpayers contribute more than their proportionate share to federal operations. In a number of areas, fundamental decisions about the kind and level of

federal commitment is real nonetheless. Federally driven non-discretionary spending has risen in the state. The interaction of the federal tax code and Florida's revenue structure has combined to make Florida a net importer of taxes, despite heavy exportation through consumption taxes on tourists. The design and mix of federal grant policies has continuing consequences for the state. If state and local governments had received the national average per capita share of federal grant dollars in 1989, they would have realized more than \$1.8 billion in additional revenues.

In Florida, the fiscal realignment of the last ten years has been exacerbated by the continuing demands of population

The actions of the national government have narrowed the revenue options available to state and local governments and increased the pressure on their spending.

growth and dramatic demographic change. The state's population grew by more than 33% in the eighties, increasing its national ranking from 7th

services are effectively beyond the control of state and local officials.

Florida, of course, has long ranked 50th among the states in its per capita receipt of federal grants. Its tax structure, program commitments and growth work against it in many federal funding formulas. In some ways then, the new federal discipline has had less effect in Florida than in more dependent states. Too, the state has clearly benefited from the continuing federal commitment to the social security umbrella. But the impact of the changing

to 4th. Only California, at 26.1% growth, and Texas, at 19.1%, registered comparable increases among the large states.

Of course, growth is not new to Florida. The state has grown considerably since the turn of the century and the days of Napoleon Broward when two-thirds of the population lived in the northern tier of counties. For each of the last 10 decades, its population has increased by more than 25%. Growth has been the signature of Florida throughout this century, even during the Depression years. Public

officials have long had to deal with its effects.

Florida's governments have responded to population and economic growth in various ways. In many cases, they have become bigger, more complex. State and local government employment topped 600,000 in 1989. That amounted to 497 employees per 10,000 total population, ranking the state 34th nationally. County government has assumed more functions in the intergovernmental system. The State provides more services in a broader array of areas than ever before.

But for all the changes, there are numerous continuities with the past. *Local government remains much stronger in Florida than in most states.* Local government revenues in Florida exceed national averages. Only a quarter of the state and local employment is accounted for by state workers. The state, by national standards, is weak fiscally. The state workforce is proportionately among the smallest in the country. Overall, in 1950, governmental employment accounted for 16.9% of all nonagricultural employment in Florida. In 1989, it amounted to 16.3%. In fact, the governmental workforce has varied over time. For example, state and local employment as a percentage of the population declined between 1980 and 1985. It has risen in the years since. Both the state and local workforce have expanded faster than population over the last 5 years.

Similar patterns can be seen in other areas. The scale of government activity has increased dramatically, but its

relationship to other parts of the economy has shown much less change. In 1953, state and local government tax revenue as a percentage of personal income was 9.2%. Florida imposed a tax burden that ranked it 8th among the states. Through the end of the Postwar boom in 1965, it rose to 10.5%. In 1989, Florida tax revenues accounted for 10.1% of personal income, ranking the state 45th on this measure. Over nearly a half century, Florida has pursued tax policies that have resulted in a comparatively uniform return.

The continuities between Florida's past and present are not surprising, perhaps. But neither were they foreordained. In fact, Florida has had to

reinvent itself periodically just to maintain pace with the restless character of growth. Throughout the thirties and into the late forties, a series of officials ranging from Governor Carlton to Governor Caldwell drew the picture of an ever worsening fiscal and managerial situation. Governor Sholtz's Special Committee on Taxation and Public Debt criticized the state's revenue system and its administration as "haphazard and without regard to sound principles of finance" as early as 1934. In the postwar period, a string of committees and task forces wrestled with the increasing archaic administrative features of state and local government together with the

**Table 2: Florida Population Growth
1900 - 1990**

Year	Population	Change	% Change
1900	528,542		
1910	752,619	224,077	42.4%
1920	968,470	215,851	28.7%
1930	1,468,211	499,741	51.6%
1940	1,897,414	429,203	29.2%
1950	2,771,305	873,891	46.1%
1960	4,951,560	2,180,255	78.7%
1970	6,791,418	1,839,858	37.2%
1980	9,746,324	1,954,906	43.5%
1990	13,003,362	3,257,038	33.4%

Sources: U.S. Bureau of Census, *1980 Census of Population*, PC 80-1-All, February 1982; Bureau of Economic and Business Research, *Florida Estimates of Population*, April 1, 1989, University of Florida, February 1990.

impending mismatch between the demand for services and the existing revenue base.

The Special Joint Economy and Efficiency Committee was created by the Legislature in 1943 to study the state's overall administrative system. It made a number of far reaching proposals in 1945 to increase the authority of the Governor in matters of budget and management while also streamlining state government. They were not enacted. The Citizen's Tax Committee appointed in 1945 and the Joint House-Senate Tax Survey Committee of 1947 crossed similar ground a couple of years later. With the exception of the creation of the legislative Reference Bureau and the abolition of earmarked trust funds, their work was to little effect. But they are significant as efforts to grapple with the burgeoning demographic changes affecting Florida in the aftermath of World War II.

It was only in the face of a severe political crisis that the Legislature and Governor Warren enacted the Revenue Act of 1949, establishing the restricted 3% sales tax. This broadened the state's revenue base significantly but it did not solve the fundamental problem facing the state. In 1951, an analysis of *Florida's Tax Structure* by the legislative Reference Bureau asked: "Why does

Florida face financial crises even in times of unparalleled prosperity." Its answer still has resonance for our era:

"As a general rule, Florida has more severe financial crises in times of prosperity than depression. This is because the heavy tax reliance is on consumption expenditures which rise more slowly than income." In fact, the Bureau continued, "...state revenue suffers at any point in the business cycle."

It has been almost forty years since the legislative Reference Bureau released its report. Florida has changed enormously. Its administrative

structure was revamped by the Constitution of 1968. But in many ways, little has changed.

During the 1980s, Appropriations grew from \$7.82 billion to \$23.15 billion, a rate of 196%. A large portion of this can be traced to the influence of inflation. Another part was due to the effects of population growth. Some may even be ascribed to the increased appetite for governmental services that accompanies growth in income. But in real terms, the state budget did grow. However, the growth was not uniform across all the agencies of state government.

Table 3: Comparative Perspective on State and Local Government Revenues Florida, 1988

	Per Capita		% of Personal Income	
	U.S.	Florida	U.S.	Florida
State, Own Source				
Taxes	\$1,074	\$929	7.0	6.1
Non Taxes				
Charges	\$140	\$68	0.9	0.4
Misc.	\$162	\$108	1.1	0.7
TOTAL	\$1,376	\$1,105	9.0	7.3
Local, Own Source				
Taxes	\$698	\$593	4.6	3.9
Non Taxes				
Charges	\$245	\$333	1.6	2.2
Misc.	\$161	\$261	1.1	1.7
TOTAL	\$1,104	\$1,187	7.2	7.8
State and Local				
Taxes	\$1,772	\$1,522	11.6	10.0
Non Taxes				
Charges	\$385	\$401	2.5	2.6
Misc.	\$323	\$368	2.1	2.4
TOTAL	\$2,480	\$2,291	16.2	15.1

Source: U.S. Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism: Revenues and Expenditures*, Vol. 2, August 1990, Tables 67, 68, 71, 72, 75, and 76.

Table 4: Perspectives on Growth in Total State Appropriations: 1980 - 1990

(\$ in billions)

Growth	1979-80	1989-90	Growth \$	% Growth
Appropriations Actual dollars	\$7.82	\$23.15	\$15.33	196%
Appropriations Adjusted for inflation 1990 dollars	\$12.73	\$23.15	\$10.42	82%
Appropriations Adjusted for inflation (1990 dollars) and population change	\$17.09	\$23.15	\$6.06	35%
Appropriations Adjusted for inflation (1990 dollars), population change, and income change	\$20.76	\$23.15	\$2.39	12%

Source: Staff calculation based on Executive Office of the Governor, Office of Planning and Budgeting, *Florida's Ten-Year Summary of Appropriations Data*.

Education, Health and Rehabilitative Services, Fixed Capital Outlay, Corrections, Retirement and the Judiciary account for most of the growth. Some agencies actually decreased their reliance on general revenue dollars, but for the most part this can be traced to a growing reliance on earmarked trust funds.

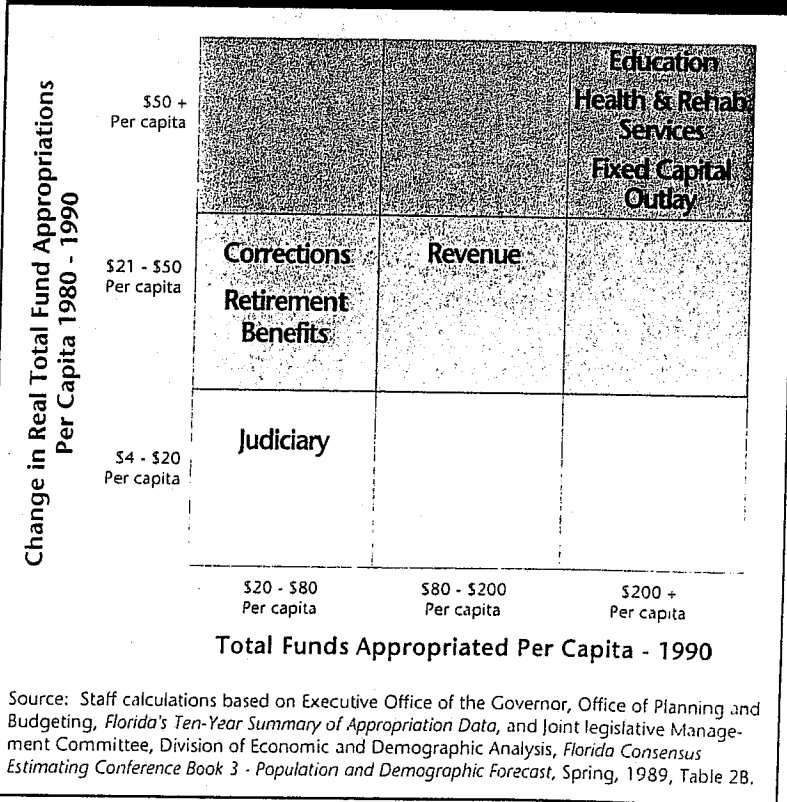
The state's tax structure as it existed in 1980 was inadequate to support the growth in expenditures over the decade. Like its 1950 predecessor, it could not keep pace with the state's economic growth. Between 1981 and 1990, state general revenues as a percentage of personal income increased slightly from 4.1% to 4.2%. But it did so only with a series of tax law changes. Without the changes, general revenues would have dropped to 3.2% of personal income. Almost 24% of the general revenues collected by the state in 1990 are the result of tax increases enacted during the decade. Remarkably, the average increase in revenues

over prior year expenditures was 9.3% during the eighties. Appropriations, however, averaged 12.3% over expenditures, indicating that, on

average, Legislatures have decided to raise an additional 3.0% of revenues to fund appropriations. This happened without apparent regard for the electoral cycle.

The annual round of tax increases does not appear to have adversely affected the public's view toward taxation. On the whole, the public does not seem predisposed to decrease current levels of funding significantly. According to the 1990, Florida Annual Policy Survey, 60% of those surveyed indicated that services should be maintained even if it meant higher taxes. At the same time, the Florida Annual Policy Survey found most of the public critical of state and local policymaking institutions and the delivery of services in several areas. None-

Figure 1: Total Fund Appropriation by Size and Growth Agencies and Selected Functions



BACKGROUND & INTRODUCTION

theless, almost 80% think the level of taxes is about right.

In part, this may be because, on average, taxation in Florida is not particularly onerous. While the burden has increased in recent years, it is still light relative to that experienced in other states. Of course, tax burdens vary across the state, both with income level and family size. Still, Florida does well. In a comparative study of the tax burdens in the largest city in each state in 1988, Ian Allen and John Peterson found the total tax liability of residents of Jacksonville to be among the lowest in the country (49 out of 51), nearly \$1350 lower than the national average for a two income, two dependent family. Remarkably, after allowing for

the interaction of federal, state and local tax systems, Jacksonville showed the greatest degree of progressivity in total taxes of any major city in the country.

Of course, taxation is not just a state issue. Nor are rising demands peculiar to state government. Municipalities and counties face a number of local challenges. There is no single list of such issues, however, the following are widely acknowledged:

1. More than a dozen counties with a population of less than 50,000 are at their ad valorem millage limit and face serious difficulties meeting their operating responsibilities in important areas such as corrections, solid waste, health and law enforcement.

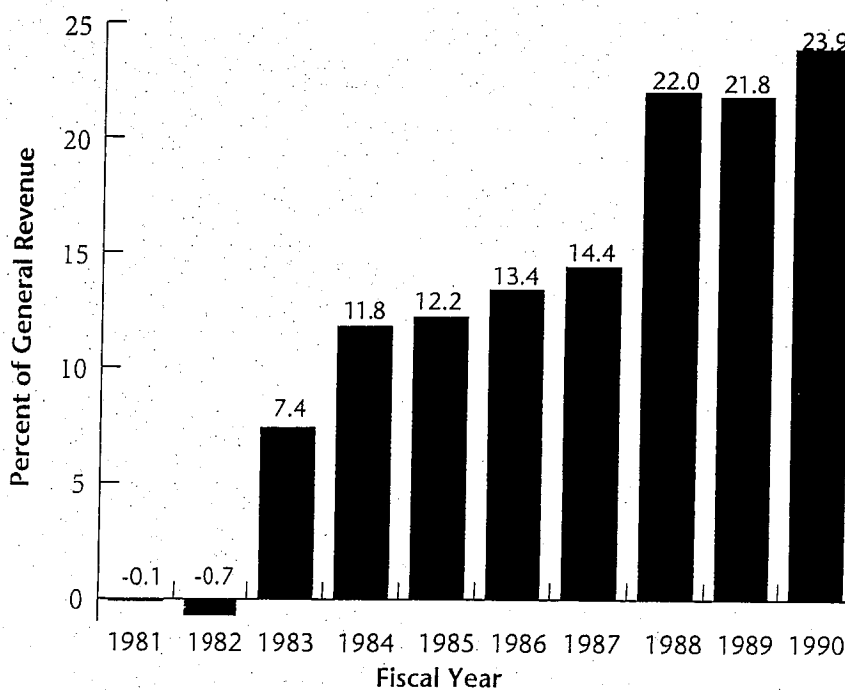
2. Many larger municipalities and counties face significant problems meeting the concurrency requirements of the growth management act, especially for roads, while maintaining levels of service in current operations.
3. In many jurisdictions, the service demands in areas such as law enforcement, environmental protection, and social services are outpacing the growth in revenues. This problem is exacerbated by the number of service responsibilities given cities and counties by the state and federal governments over which they have little real financial control.

Local governments face many of the same problems as

the state without the same revenue flexibility. Having raised fees aggressively for over a decade and having explored the potential of privatization, many municipalities and counties now search for alternatives.

Alternatives are needed. Left alone, Florida's fiscal situation deteriorates. This is true at the state level even under relatively conservative expenditure estimates. A recent SRI International report, *Crossroads: Designing Florida's Tax Structure*, prepared for the Florida Chamber of Commerce Founda-

Figure 2: Proportion of General Revenue Due to Tax Law Changes Since 1980



Source: The Florida Senate, Finance, Taxation, and Claims Committee presentation to the Florida Taxation and Budget Reform Commission, *Overview of Florida's Revenue Structure*, July 25, 1990, p. 24.

tion found that even when limiting real expenditures per household to their current levels the state revenue system is unlikely to produce the necessary revenues over the next decade. The situation is worse under less conservative assumptions. Estimates developed by the Department of Education and the Department of Health and Rehabilitative Services suggest caseload increases alone over the coming decade will swamp the current general revenue structure. At a minimum, the estimated structural deficit in the general revenue fund is just over 4%.

As they are configured in current law and current administration, expenditures will outstrip

revenues. In light of this realization, it is not surprising that taxation and spending policy has received increasing attention in recent years. In 1982, the sales tax rate was increased from 4% to 5% with half the increase shared with municipalities and counties. In 1983, the corporate income tax was converted to a worldwide unitary form only to be subsequently repealed. The State Comprehensive Plan Committee made a number of recommendations in 1987 aimed at redressing state and local infrastructure deficits. One, a sales tax on services and other previously exempted transactions, was first allowed to become law and then repealed. During the 1989 and

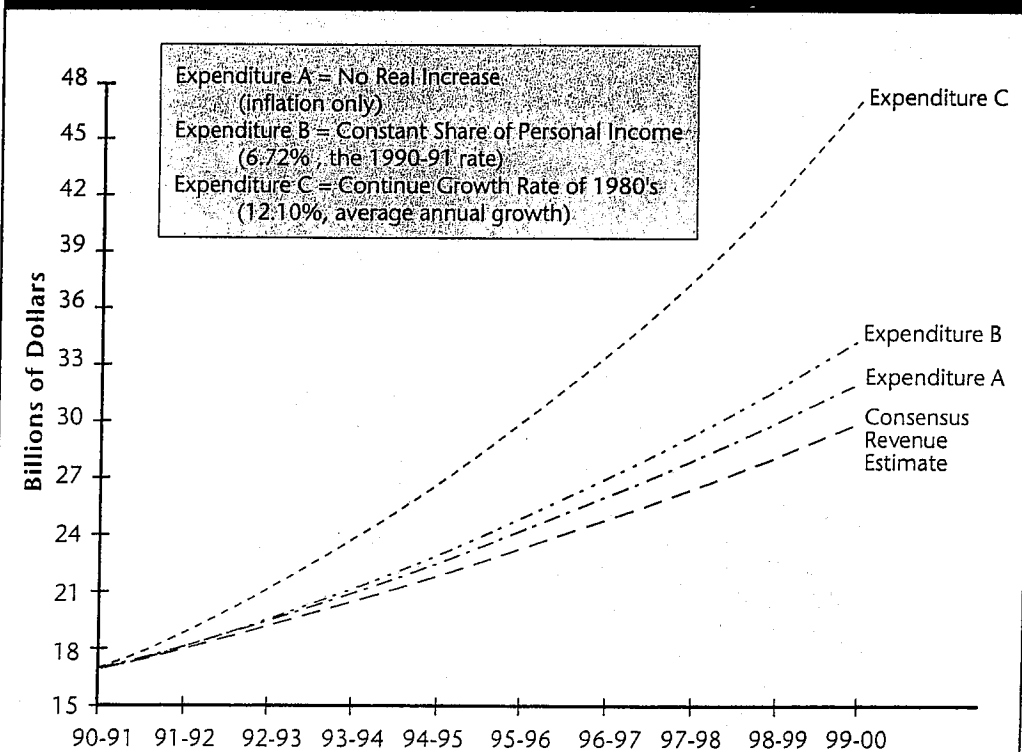
1990 sessions, the Legislature enacted a kaleidoscope of funding measures ranging from changes in the insurance premium tax to increases in highway safety fees.

Florida's tax policy is a patchwork. It has many of the attributes described by Governor Carlton over 70 years ago. Now it must respond to a situation not unlike that confronting Governors Caldwell and Warren, a demographic explosion. For almost a decade, policymakers have sought to bring taxation and spending policy in line, without success. *The size of the problem is such, that it is no longer clear that revenues alone are the answer.* But it is just as clear that the demand for education, social service,

health and environmental programs will not slack appreciatively in the coming years.

The shape of the problem confronting the state on matters of taxation and spending emerged during the eighties. By the end of the decade, the need to address the problem was clear. The means was undecided.

Figure 3: Florida's Structural Deficit 1990-91 through 1999-2000



Source: Adapted from Florida Chamber of Commerce Foundation, SRI, Inc., *Crossroads: Designing Florida's Tax Structure*, Figure IV-2, P. 21.

The Taxation and Budget Reform Commission

FLORIDA relies upon citizen participation in many of its governmental processes. Perhaps most significantly, the people of Florida have the authority and responsibility to periodically review and propose changes to the State Constitution. Florida is alone among the 50 states in subjecting its constitutional design to the periodic, formal scrutiny of non-elected citizens.

In the 1968 Constitution, the voters of Florida created the Constitutional Revision Commission to conduct constitutional assessments every 20 years. In 1988 (10 years after the first Constitutional Revision Commission), the Florida Legislature saw the need for a more frequent citizen review in one particular area: the state's policies towards taxation, spending and budgeting. By the late eighties, it was clear that short-term solutions proposed by elected leaders were not working. The state needed a new and comprehensive approach to examining the way Florida government collects, budgets, and expends taxpayer dollars.

Responding to the growing belief that the financial situation needed examination, the Legislature turned to and expanded the concept of the Constitutional Revision Commission. It proposed a Constitutional amendment creating Section 6 of Article XI of the State Constitution. In Novem-

ber 1988, more than 2.1 million Floridians (57%) voted to create the Florida Taxation and Budget Reform Commission. The Constitutional amendment directs the Commission to

More than 2.1 million Floridians (57%) voted to create the Florida Taxation and Budget Reform Commission.

conduct a comprehensive investigation of taxation and spending policy in the state.

More generally, the amendment transferred the authority to review matters relating to state and local taxation and budgetary processes from the Constitutional Revision Commission to the newly created Taxation and Budget Reform Commission. While the two commissions are similar in many ways, the Taxation and

Budget Reform Commission is unique in significant respects.

First, a Taxation and Budget Reform Commission will be established every 10 years instead of 20 years for the

Constitutional Revision Commission. The shorter cycle is recognition of the fundamental character of taxation and spending in the contemporary state.

The basis of such policy can change rapidly. Sweeping economic and demographic developments alter the presuppositions of policy and must be addressed anew. Both the demand for and support of government can change. The pace of technological change and fluidity of social consensus work to undermine taxation and spending policy. In a Florida churning with change, 20 years is a long time.

Second, the new amendment allows for a more delib-

Summary

- The Taxation and Budget Reform Commission was created in 1988 as an amendment to the Florida Constitution.
- The Commission has established four working committees to do the job entrusted to it by the people.
- The Commission and its committees met frequently during the last half of 1990 and early 1991 to complete the first steps in a reform agenda.



**Table 5: Taxation and Budget Reform Commission
Ten Constitutional Responsibilities**

Substantive Requirements

The Commission shall:

1. Examine the state budgetary process.
2. Examine the revenue needs of the state.
3. Examine the expenditure processes of the state.
4. Examine the appropriateness of the tax structure of the state.
5. Examine governmental efficiency and productivity.
6. Review policy as it relates to the ability of state and local government to tax and adequately fund governmental operations and capital facilities required to meet the state's needs during the next ten year period.
7. Determine the methods favored by the citizens of the state to fund the needs of the state, including alternative revenue raising methods for raising sufficient revenues for the needs of the state.
8. Determine measure that could be instituted to effectively gather funds from existing tax sources.
9. Examine constitutional limitations on taxation and expenditures at the state and local level.
10. Review the state comprehensive planning, budgeting and needs assessment processes to determine whether the resulting information adequately supports a strategic decision making process.

erative process. The Taxation and Budget Reform Commission has up to 27 months in which to discuss issues and formulate recommendations before it must file proposed constitutional revisions with the Secretary of State: May 7, 1992 for the first Commission. The Constitutional Revision Commission, at least as previously implemented, must do its work in under 11 months. This extended period for deliberation may reflect a recognition of the complexity of the issues involved in reforming the state's taxation and budgeting laws. It

also may consider the expanded charge of reviewing statutory as well as Constitutional provisions relating to this topic.

Third, there is a substantial difference between the Taxation and Budget Reform Commission and the Constitutional Revision Commission in their relationship with the Governor and the Legislature. Unlike the Revision Commission, the Taxation and Budget Reform Commission is charged with evaluating not only the Constitutional provisions relating to taxation and budgetary processes, but also the statutory laws

governing these processes. The Commission is asked to make recommendations for statutory change as it deems necessary. Still, direct legislative involvement in Commission activities is restricted; no sitting legislator may be appointed as a voting member of the Commission.

There is a final, significant difference between the two Commissions. The Taxation and Budget Reform Commission may only place proposed constitutional amendments before the people if they are first approved by an extraordinary, concurrent majority of the Commissioners eligible to vote. Proposed constitutional amendments must carry concurrent majorities of the members appointed by the Governor, President, and Speaker and be approved by two-thirds of the voting membership. These are constitutional provisions. There is no such provision for the Constitutional Revision Commission. In 1978, the Constitutional Revision Commission used a simple majority to forward its proposals to the ballot. The Taxation and Budget Reform Commission uses this method for recommended statutory changes that are forwarded to the Governor and the Legislature for consideration and implementation.

The Constitution requires the Commission to be established in 1990 and every 10 years thereafter. The Commission has 11 gubernatorial appointees (all voting members) and 18 legislative appointees (7 voting by the Senate President; 7 voting by the Speaker of the House; 2 non-voting Senators; and 2 non-voting Representatives). Then Governor Bob

Table 6: Differences Between the Taxation and Budget Reform Commission and the Constitutional Revision Commission

Florida has established two mechanisms for citizen revision of the state Constitution. The differences between the Constitutional Revision Commission and the Taxation and Budget Reform Commission are highlighted below:

Constitutional Revision Commission

Appointment of the Chair

1. The Chair is appointed by the Governor.

Nature of Appointments

1. The Revision Commission has 37 members, including the Attorney General, 15 members appointed by the Governor, 9 appointed by the President of the Senate, 9 appointed by the Speaker of the House of Representatives, and 3 appointed by the Chief Justice of the Florida Supreme Court.
2. Sitting legislators can be appointed and serve as voting members of the Revision Commission.

Time Period for Deliberation

1. The Revision Commission is established within 30 days after the adjournment of the regular session of the Legislature in the 20th year following the 1978 Constitutional Revision Commission.
2. The Revision Commission must file proposed revisions to the Constitution with the Secretary of State no later than 180 days prior to the next general election after it has been convened.
3. These two provisions allow for no more than 13 months deliberation by the Revision Commission.

Role for Legislative Initiatives

1. The Revision Commission is not directed to suggest statutory changes or make a report to the Legislature.

Scope of Inquiry

1. Prior to the Constitutional amendment in 1988, the Revision Commission was to examine the entire Florida Constitution.
2. The amendments in 1988 excluded matters relating directly to taxation or state budgetary processes from the purview of the Revision Commission and gave them to the Taxation and Budget Reform Commission.

Voting Requirements

1. The Revision Commission can propose constitutional revisions with a majority vote.

Taxation and Budget Reform Commission

Appointment of the Chair

1. The Chair is elected by the members at the first meeting.
2. Absent a designated Chair, there is not a specific way to convene the first meeting.

Nature of Appointments

1. The Reform Commission has 29 members, 11 members appointed by the Governor, 9 appointed by the President of the Senate (including 2 Senators), 9 appointed by the Speaker of the House of Representatives (including 2 Representatives).
2. Sitting legislators appointed to the Reform Commission serve as non-voting members.

Time Period for Deliberation

1. The Reform Commission has up to 27 months for deliberation before it must file proposed constitutional revisions with the Secretary of State.

Role for Legislative Initiatives

1. The Reform Commission is asked to make statutory recommendations.

Scope of Inquiry

1. The Constitutional amendment in 1988 specifically assigned matters relating directly to taxation or state budgetary processes to the Taxation and Budget Reform Commission.
2. "Taxation" and "state budgetary processes" are not defined in the Constitution. However, the following sections of the Constitution are covered by the Reform Commission:
 - a. Article III, ss. 8 and 12;
 - b. Article IV, ss. 4 and 9;
 - c. Article VII, ss. 1-17, inclusive;
 - d. Article VIII, ss. 1 and 2;
 - e. Article IX, s. 6; and
 - f. Article XII, ss. 2, 8, 9, and 15.

Voting Requirements

1. The Reform Commission can propose constitutional revisions only if it has both a two-thirds majority of the full Commission and concurrent majorities of the members appointed by the Governor, President, and Speaker.
2. The Reform Commission's rules allow statutory changes to be recommended with a majority vote.

**Table 7: Taxation and Budget Reform Commission
Formal Constitutional Requirements**

Formal Requirements

1. The Commission must be established in 1990 and each tenth year thereafter.
2. The Commission is composed of 25 voting non-legislative members and 4 non-voting legislative members.
 - a. Eleven (11) voting members appointed by the Governor
 - b. Seven (7) voting and 2 non-voting members appointed by the President of the Senate. One of the non-voting legislative members must be from the minority party.
 - c. Seven (7) voting and 2 non-voting members appointed by the Speaker of the House of Representatives. One of the non-voting legislative members must be from the minority party.
3. The Commission shall elect a non-legislative member at its first meeting to serve as Chairman.
4. The Commission shall adopt rules of procedure at its first meeting.
5. The Commission shall hold public hearings as it deems necessary.
6. The Commission shall issue a report of the results of the review it carries out.
7. The Commission shall propose to the Legislature recommended statutory changes related to the taxation or budgetary laws of the state.
8. Not later than 180 days prior to the general election in the second year following the year in which the Commission is established, the Commission must file with the Secretary of State its proposal, if any, for a revision to the Constitution dealing with taxation or the state budgetary process (May 7, 1992).
9. Any revision of the Constitution proposed by the Commission requires:
 - a. An affirmative vote of two-thirds of the full Commission (or 17 members), and
 - b. The concurrence of a majority of the members appointed by the Governor (6 members), the Speaker of the House of Representatives (4 members) and the President of the Senate (4 members).
10. Members of the Commission are exempt from the prohibition on dual office holding established in Section 5 (a), Article II of the Constitution.

representatives Tom Gustafson introduced their appointees to the Commission. The members were then sworn in by The Honorable Raymond Erlich, Chief Justice of the Florida Supreme Court.

The Commission elected Mr. Tom Rankin as its Chairman and adopted temporary rules at the first meeting. The operational structure of the body was incorporated into final rules subsequently approved. Specifically, the commission established four substantive committees to carry out its charge. The committees are:

1. Governmental Services;
2. Planning and Budgetary Processes;
3. Procedures and Structure; and
4. Finance and Taxation.

Each of these committees has six voting members, plus the Commission

Martinez, Senator Bob Crawford, President of the Senate, and Representative Tom Gustafson, Speaker of the House of Representatives, appointed the members of the first Taxation and Budget Reform Commission in January 1990.

Organization

The inaugural meeting of the Taxation and Budget Reform Commission was held April 16, 1990 in the Senate Chambers of the Old Capitol in Tallahassee. Governor Martinez, President of the Senate Bob Crawford, and Speaker of the House of Repre-

chair (as an ex officio non-voting member) and one legislative member (non-voting). The charge of each committee is established in the Commission's rules.

The Governmental Services Committee is charged with studying the revenue needs of state and local governments,

evaluating the demand for government services and capital facilities, determining the level of service provided, identifying the current financing of those services and projecting changes in costs of the services over the next ten years. The Committee also reviews constitutional limitations on and non-discretionary

demands for expenditures at the state and local levels.

The function of the Committee on Planning and Budgetary Processes is to identify and assess financial planning, needs

assessment processes, and budgeting systems used by state and local government. It also must identify statutory and constitutional constraints on

efficiency and productivity. It seeks to identify techniques used to improve cost effectiveness in the delivery of services, assess the impact of these

techniques and determine measures that could be instituted to realize additional revenues from existing tax sources.

The Committee also looks at the existing pattern of governance and the division of responsibilities between state, regional, and local governments to determine if these factors promote govern-

The Commission established four substantive committees to carry out its charge. They are:

- 1. Governmental Services;***
 - 2. Planning and Budgetary Processes;***
 - 3. Procedures and Structure; and***
 - 4. Finance and Taxation.***
-

efficient operation of the state's planning and budgetary processes.

The Procedures and Structure Committee is charged with examining governmental

**Table 8: Members of the 1990
Florida Taxation and Budget Reform Commission**
(appointing authorities indicated)

Mr. Hugh A. Anderson (Senate) of Ft. Lauderdale is president of Anderson Realty in Ft. Lauderdale.

Mr. Elliott B. Barnett (Senate) of Ft. Lauderdale is a senior partner in the law firm Ruden, Barnett, McClosky, Smith, Schuster & Russell.*

Mr. Hoyt R. "Barney" Barnett (Governor) of Lakeland is the executive vice president of Publix Supermarkets.

Ms. Martha W. Barnett (Governor) of Tallahassee is a partner with the Holland and Knight law firm.

Dr. James A. Bax (Senate) of Long Boat Key is chairman of the board of ACSI, Inc., a national professional testing company.

Mr. Jacob C. Belin (Governor) of Port St. Joe is the chairman and chief executive officer of the St. Joe Paper Company.

Mr. F. Philip Blank (House) of Tallahassee is president of F. Philip Blank, P.A., a law firm based in Tallahassee.

Mr. R. Mark Bostick (Senate) of Winter Haven is president of Comcar Industries, Inc., of Auburndale.

Mr. Bill L. Bryant, Jr. (Governor) of Tallahassee is a partner in the law firm of Foley & Lardner.

Ms. Linda W. Chapin (House) of Orlando is chairman of Orange County.

Mr. Miles C. Collier (Governor) of Naples is the managing partner of Collier Enterprises, a financial asset management, land development, and agricultural firm.

Mr. Andrew L. Duda (Governor) of Oviedo is the executive vice president of A. Duda and Sons, an agricultural and land development firm.

(continued)

Table 8 (continued): Members of the 1990 Florida Taxation and Budget Reform Commission

(appointing authorities indicated)

Mr. David W. Dunbar (Governor) of Dunedin is the owner of Dunbar Corporation, a financial consulting and development firm in Palm Harbor.

Mr. Homer Hooks (Senate) of Lakeland is chairman of The Hooks Group, Inc., a communications consulting firm.

The Honorable Bob Johnson (R) of Sarasota is currently serving his second term in the Florida Senate and had been a member of the House of Representatives for four terms.

Mr. Seth P. Joseph (Senate) of Ft. Lauderdale is a partner in the corporate/public finance department at the law firm Ruden, Barnett, McClosky, Smith, Schuster & Russell of Ft. Lauderdale and Miami.*

Mr. Allan J. Katz (House) of Tallahassee is the managing partner of Katz, Kutter, Haigler, Alderman, Davis, Marks & Rutledge law firm.

Mr. Charles E. LeCroy (Governor) of Winter Park is president of Southeastern Capital Group, Inc., an investment banking firm in Orlando.

The Honorable Joseph R. "Randy" Mackey (D) of Lake City was first elected to the Florida House of Representatives in 1986.

The Honorable Carrie Meek (D) of Miami is currently serving her third term in the Florida Senate and had previously been a member of the House of Representatives for two terms.

Mr. Peter W. Mettler (Governor) of Palm Beach is a partner in the law firm of Mettler and Gilson.

Mr. H. Lee Moffitt (House) of Tampa is former speaker of the Florida House of Representatives and currently managing partner of the Tampa office of the Akerman, Senterfit, Eidson, and Moffitt law firm.

Ms. Marta Prado (House) of Plantation is vice president of marketing and business development for EMSA Limited Partnership.

Mr. Thompson L. Rankin (Senate) of Tampa is the chairman of the board, president, and chief executive officer (CEO) of Lykes Bros., Inc.; chairman and CEO of 7L Corporation and Lykes Energy, Inc.; director and vice-chairman of First Florida Banks, Inc.; and chairman of the board, president, and CEO of Shore Management, Inc. Mr. Rankin was elected as chair of the Commission by the members at the first meeting.

The Honorable Debby P. Sanderson (R) of Fort Lauderdale has served as a member of the Florida House of Representatives since 1982.

Mr. Tom H. Slade (Governor) of Orange Park is president of Dozier and Gay Paint Company in Jacksonville.

Mr. Arthur E. Teele, Jr. (Governor) of Miami is a partner with the law firm of Adorno and Zeder. He also is a member of the Dade County Commission.

Mr. Parker Davidson Thomson (House) of Miami is the senior partner of the law firm Thomson, Muraro, Bohrer & Razook, P.A.

Mr. Pat Tornillo (Senate) of Miami is the president of the Florida Education Association United, executive vice president of the United Teachers of Dade and vice president of the American Federation of Teachers.

Mr. Steven J. Uhlfelder (House) of Tallahassee is with the law firm of Steel, Hector and Davis.

* Mr. Elliott Barnett resigned in November 1990. Senator Bob Crawford appointed Mr. Seth Joseph to take over Mr. Barnett's responsibilities on the Commission.

THE COMMISSION

mental efficiency and the adequate funding of government operations and capital facilities. Finally, this Committee must identify and evaluate any constitutional and statutory constraints impeding the use of efficiency and productivity techniques.

The charge to the Finance and Taxation Committee is to evaluate the current tax structure of state and local governments, investigating how government activities are funded and how the existing tax structure is projected to function over the next ten years. It seeks to assess the methods favored by the citizens of

Florida to fund the levels of service identified by the Governmental Services Committee. The Committee also must examine the constitutional and statutory limitations on state and local finance and taxation.

The Commission's Coordinating Committee oversees the activities of the Commission and its substantive committees. It also sets the agenda for the full Commission and handles procedural issues when they arise. This Committee is comprised of the chairs and vice-chairs of the substantive committees and is chaired by the chair of the Commission.

Table 9a: Commission Meeting Schedule

1990	
April 16	Tallahassee
June 27	Tallahassee
July 24	Tallahassee
September 25	Tallahassee
October 2*	Tampa
October 3*	Miami
November 8	Tallahassee
December 5	Tallahassee
1991	
January 10	Tallahassee
January 18	Tallahassee
February 6	Tallahassee

*Public hearings.

Table 9b: Taxation and Budget Reform Commission Committee Meeting Schedule

1990			
April 24	Budget Committee	November 8	Coordinating Committee
May 7	Budget Committee	November 26	Finance and Taxation
June 12	Rules & Planning	November 27	Procedures & Structure
June 27	Coordinating Committee	November 29	Planning & Budgetary Processes
	Governmental Services	December 4	Governmental Services
	Planning & Budgetary Processes		Planning & Budgetary Processes**
	Procedures & Structure		Procedures & Structure**
	Finance and Taxation		Coordinating Committee
July 24	Coordinating Committee	December 5	Coordinating Committee
July 25	Governmental Services	December 12	Planning & Budgetary Processes
	Procedures & Structure	December 18	Procedures & Structure
	Finance & Taxation		
August 27	Coordinating Committee	1991	
	Governmental Services**	January 9	Governmental Services
	Planning & Budgetary Processes**		Planning & Budgetary Processes
	Procedures & Structure**		Procedures & Structure
September 25	Governmental Services		Finance & Taxation
	Planning & Budgetary Processes		Coordinating Committee
	Procedures & Structure	January 17	Governmental Services
	Finance & Taxation		Planning & Budgetary Processes**
September 26	Coordinating Committee		Procedures & Structure**
October 2	Procedures & Structure		Finance & Taxation
October 25	Planning & Budgetary Processes		Coordinating Committee
November 7	Governmental Services	February 5	Governmental Services
	Planning & Budgetary Processes		Planning & Budgetary Processes**
	Procedures & Structure		Procedures & Structure**
	Finance & Taxation		Finance & Taxation
			Coordinating Committee

**Joint committee meetings.

Meetings

By and large, the Commission meets monthly. The months following the initial meeting were largely devoted to developing rules, recruiting and hiring staff, and orienting the membership to the issues facing the state, particularly as they relate to finance, taxation, and governmental services. In October 1990, the Commission held two public hearings to solicit a broad range of perspectives: one in Tampa (Oct. 2) and one in Miami (Oct. 3). More than 55 speakers addressed the Commission in those two days on a variety of issues and concerns. The testimony and discussion from the hearings was transcribed for an accurate record of the proceedings. The proposals aired at these meetings were summarized and recorded for distribution to the Commission members.

Of course, all Commission meetings and those of its committees have been open to the public. The committees take testimony at their committee meetings. It is Commission policy to solicit comments, suggestions, and criticisms from experts and constituent groups, particularly when considering proposals at full Commission meetings.

Whenever possible, meetings of the Commission and its committees are noticed in the Florida Administratively Weekly. Draft meeting agendas are sent to more than 700 interested individuals and organizations. When meeting dates, times, and places change unexpectedly, the Capital Press Corp, representing the major print media throughout the state, is notified of the change.

Table 10: Committee Structure and Membership

Governmental Services Committee

Lee Moffitt (Chair)
Miles Collier (Vice-Chair)
Jacob Belin
Senator Bob Johnson (non-voting)
Seth Joseph
Charles LeCroy
Marta Prado
Tom Rankin (ex officio)

Procedures and Structure Committee

Tom Slade (Chair)
Arthur Teele, Jr. (Vice-Chair)
Hugh Anderson
Martha Barnett
Representative Randy Mackey (non-voting)
Tom Rankin (ex officio)
Pat Tornillo
Steven Uhlfelder

Planning and Budgetary Processes Committee

Hoyt (Barney) Barnett (Chair)
Homer Hooks (Vice-Chair)
Bill Bryant, Jr.
Linda Chapin
Allan Katz
Tom Rankin (ex officio)
Representative Debby Sanderson (non-voting)
Parker Thomson

Finance and Taxation Committee

R. Mark Bostick (Chair)
Peter Mettler (Vice-Chair)
James Bax
F. Philip Blank
Andrew Duda
David Dunbar
Senator Carrie Meek (non-voting)
Tom Rankin (ex officio)

Coordinating Committee

Tom Rankin (Chair)
Tom Slade (Vice-Chair)
Barney Barnett
R. Mark Bostick
Miles Collier
Homer Hooks
Peter Mettler
H. Lee Moffitt
Arthur Teele, Jr.

CHAPTER FOUR

The Commission's Approach to Reform

THE Commission has been given ten constitutional responsibilities.

They encompass the broadest possible meaning of financial policy, both at the state and local level. They involve procedural, institutional and substantive considerations. On the one hand, they demand a detailed understanding of the workings of state and local government. On the other, they require a well honed larger perspective on the interrelationships between the individual, government and the economy. By any measure, the task facing the Commission is formidable.

In its early meetings the Commission adopted two positions to help it tackle the challenge. First, as already noted, it decided to divide the task ahead of it and assign specific responsibilities to each of four committees. The committees were given broad authority to examine, investigate and deliberate on matters under their charge. They initiate studies, schedule testimony, solicit issue papers, and narrow the alternative policies to be considered by the Commission as a whole. The substantive committees serve as educational centers, listening posts and, most importantly, as guides to the entire Commission. While members can bring specific proposals before the Commission, the committees act as screens, influencing the character and pace of activity.

Second, the Commission decided to approach its tasks deliberately and with a rather specific view of how real reform should proceed. Over a course of several meetings, it fashioned a workplan with four major steps or phases.

The Commission began with the education of its membership and a review of the situation facing the state. It devoted its initial meetings and those of its committees to the education of a diverse membership, often lacking government experience. At the same time, it conducted a review of the existing situation,

drawing on a variety of resources and an array of experts, both public and private. This review and the discussions that ensued resulted in a decision to

Revenue reform can gain acceptance only after changes have been made in existing practices.

wrestle with the reform of current practices before moving on to other challenges.

Specifically, as its second step, the Commission decided to grapple with the procedural aspects and spending side of the

Summary

The Commission developed a four step plan to fulfill its constitutional responsibilities.

The plan concentrated the Commission's energies on the state's current budgetary practices and spending habits before addressing matters of taxation.

The Commission examined and made recommendations to overcome shortcomings in every stage of the budgetary process:

- Streamlining the state planning process.
- Giving the Governor more responsibility and making him more accountable for the agencies under his direct supervision.
- Making the legislative appropriations process more rigorous, more understandable and more open.
- Emphasizing agency performance and evaluation.

The Commission recommended some beginning steps toward a more effective revenue system:

- Addressing the gap between taxes due but unpaid or uncollected.
- Providing city and county governments with additional flexibility in their use of the local option infrastructure sales tax.

Table 11: Four Steps to Reform

The Commission identified four steps to reforming state government:

1. Review the existing situation.
 - How do we spend taxpayer dollars?
 - What do we spend it on?
 - Where do the dollars come from?
2. Fix what is broken before spending more money.
3. Make the existing revenue system more equitable.
4. Examine the need for the means of raising additional revenue.

fiscal equation before attacking revenue questions. Revenue reform, in the opinion of several members, can gain acceptance only after changes had been made in existing practices. The changes were necessary to ensure that the public could understand how spending priorities were established and that current revenues were not wasted or misdirected. This same approach was applied toward the third step involving the revenue side of the equation.

Here, the program was to first improve the existing system before moving on to consider any dramatic reforms. Only after these three steps were taken, the Commission decided, was it appropriate to make the fourth step and address issues of taxation.

After six months of meetings, most of the Commission's committees are well into the second or third phase of their plan. Considerable work has

been done. A number of activities are well underway.

Several recommendations have been approved by the Commission for consideration by the Legislature and Governor, as part of the second phase of the Commission's work. With one exception, they deal only with the operations of *state* government. It will take more time to come to grips with local issues and the interrelationship of local state/local issues.

Recommendations have emerged from each of the Committees, but especially from the Committees on Planning and Budgetary Processes, and Procedures and Structure. These committees were given most of the Commission's responsibilities for the examination of the procedural and institutional aspects of financial policy and thus were critical to the second step of the Commission's workplan.

Commission Recommendations: Getting More Out of the System

Budgets are the focus of the fiscal equation linking taxation and spending. They provide a good place to begin consideration of financial policy reform because, as Allen Schick noted years ago, "Every budget system, even rudimentary ones, comprises planning, management and control processes." Budgets provide entry into the most remote corners of government. They have procedural and institutional implications.

There are several elements in the state's budgetary system. They can be classified in various ways. The Commission consid-

ered five stages in the budgetary process:

1. Planning for expenditure priorities;
2. Preparation of the executive budget;
3. Legislative consideration and action on the budget;
4. Administration of the budget; and
5. Evaluation of budget implementation.

Each stage, it should be clear, affects the others. They can be separated only for analytical purposes. Thus recommendations affecting one stage necessarily have a bearing

on another. It is important to keep this connection in mind. The Commission's recommendations are designed to stand alone, but they too are connected by the very process they are designed to reform.

During the second phase of its work, the Commission examined each of these stages in the state's current budgetary system. It was guided in its investigation by the wisdom and experience of its members and, in retrospect, by a few key goals.

The Commission's aim during its second phase was to improve the effectiveness,

**Table 12: Taxation and Budget Reform Commission
Substantive Committee Activities**

Governmental Services

- Program Service Demand Forecasts.
- Agency Non-discretionary Levels of Service.
- Criteria for Evaluating Program Priorities.

Planning and Budgetary Processes

- State Comp. Plan/Agency Functional Plans
- Establish Executive Accountability
- Change in the Budgeting Schedule
- Abolition of Selected Trust Funds
- Annualization in Appropriations Bills
- Increased Availability of Appropriations Bill
- Annual Budgeting
- Character/Operation of Working Capital Fund
- Appropriations Review Process

Procedures and Structure

- Top Management and Accountability
- Performance Audit Follow-Up
- Policy Analysis and Agency Review
- FFAMIS/Decision Support Integration
- Productivity Enhancement Program

Finance and Taxation

- Taxpayer Compliance
- Ideal Revenue System Criteria
- Sales Tax Exemption Review
- Local Option Sales Tax Flexibility

efficiency and accountability of governmental operations. Of course, any system can be made to work better. More concretely, Commission members time and time again were concerned in their investigation of existing practices with the answers to a few questions:

1. Are the resources and authority now in place sufficient to carry out current responsibilities? (Functional)
2. Are current practices understandable, open and accessible enough to insure direct and indirect accountability to the public? (Accountable)
3. Is there sufficient, appropriate and timely information available upon which to base reasonable public policy? (Informed)
4. Is there sufficient capability, information and authority to insure appro-

priate institutional independence in the performance of responsibilities? (Entrepreneurial)

5. Do existing resources, procedures and organization allow timely anticipation of and reaction to matters of public policy? (Responsive)
6. Do existing resources, procedures and organization promote a reasoned set of public policies? (Responsible)

7. Do existing resources, procedures, and organization provide for effective and efficient execution of public policy and promote a reasoned set of public policies? (Effective and Efficient)

Overall, the deliberations of the Commission placed considerable importance on improving government operations and making government accountable for its performance. They emphasized the collection and use of meaningful information

**Table 13: Questions for Reform
of Florida Government**

Can the system be changed to be made more:

- Functional?
- Accountable?
- Informed?
- Entrepreneurial?
- Responsive?
- Responsible?
- Efficient and Effective?

about state programs and activities. Within the context of the state's cabinet system, the Commission also echoed A. E. Buck's famous dictum that administrative reform should aim to "make the Governor in fact, as well as in theory, the responsible chief executive of the state." As will be clear, these emphases are apparent again and again in its recommendations concerning each element in the state's budgetary process.

Planning for Expenditure Priorities

The Florida State and Regional Planning Act of 1984 (Chapter 84-257, *Laws of Florida*) required the development and adoption of a State Comprehensive Plan, ultimately Chapter 187, *Florida Statutes*. Notably, it also established a framework for an integrated planning and budgeting system affecting state, regional and local government. In concept, the State Comprehensive Plan was to serve as the guide for agencies and their programs operating at both the state and regional levels. The plan was designed to help direct the state's investments in a more effective manner while also offering greater accountability over governmental decisions to the citizens of the state at all levels of government.

The State Comprehensive Plan consists of goals and policies in 26 areas. The law defines a *goal* as "a long term end toward which programs and activities are ultimately directed" and a *policy* as "the way in which programs and activities are conducted to achieve an identified goal." By definition, policies should

provide direction to the Governor, state agencies, regional planning councils, special districts, and local governments about how the Legislature intends the State Comprehensive Plan goals to be achieved. For their part, state agencies must develop agency functional plans designed to support and be consistent with the goals and policies in the State Comprehensive Plan. Regional planning councils develop comprehensive policy plans which must be consistent with and also further the State Comprehensive Plan. Local comprehensive plans, required by Chapter 163, *Florida Statutes*, must be compatible with and further the state plan, as well.

The functional plans of State agencies are submitted in odd-numbered years to the Executive Office of the Governor for a review of their consistency with the state plan. Each

agency's plan is required to contain a statement of the policies that guide the agency's programs, and it must specify the objectives against which the agency will be evaluated in moving towards fulfillment of the goals outlined in the state plan. Agency Functional Plans are supposed to identify the financial resources needed to implement the state plan and to serve as a basis for agency Legislative Budget Requests for operating and capital funds.

Government planning in Florida was advanced greatly by the adoption of the State Comprehensive Plan, The Florida State and Regional Planning Act and the Local Government Comprehensive Planning and Development Regulation Act. County and municipal governments have made great strides. Well over 300 plans have been filed with the Florida Department of

Table 14: Planning for Expenditure Priorities Shortcomings in the Current System	
1.	The State Comprehensive Plan has not been effective in providing guidance to state planning, the implementation of state policy, or the expenditure of state resources.
2.	The State Comprehensive Plan cannot be effective unless it is reviewed regularly and shaped to emerging concerns.
3.	The Agency Functional Planning process, as currently implemented, is extremely burdensome to state agencies and of limited usefulness.
4.	The Agency Functional Planning process does not provide policymakers with the information they need to assess the performance of state agencies or the need for new state initiatives.
5.	The Agency Functional Plans are not linked in a meaningful way to the budgetary process.

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Community Affairs. Their review is well underway. Regional planning councils have developed and adopted their comprehensive regional policy plans. They will soon complete their first appraisal and evaluation process. State agencies have submitted three sets of agency functional plans.

The planning reforms of the mid-eighties can now be assessed. Some aspects have worked better than others. Local and regional plans have generally received high marks. The effort has been least successful, by most accounts, at the state level. Here, the potential for the State Comprehensive Plan and its integration into the annual budgetary process has not been realized. The state plan has not provided a meaningful basis for state planning and has not noticeably influenced state expenditure priorities.

The Select Committee on Strategic Budget Planning, established by the House of Representatives in 1989, identified two major shortcomings in the current state level planning system. The first arises from the format, organization and wording of the State Comprehensive Plan. The second centers on the structure, character and implementation of agency functional plans.

The Committee concluded:

"More often than not, the Plan's policies do not provide direction about the way in which state programs and activities are to be conducted. Too often, the policies are ambiguous and lack any other statutory support. Occasionally, the policies appear to be in conflict with other statutory provisions. Its policies are too numerous and too flaccid to provide strategic guidance. On the other hand, the

plan's goals are too few and too general to frame a meaningful vision of the state's future."

As a result of these problems, there are serious weaknesses in the way and degree to which agency functional plans can work as anticipated. As it stands, agency functional plans are not linked usefully either to the statutory policies that govern the agencies or to the goals and policies in the plan. The objectives identified in the functional plan often lack ready reference to the real responsibilities of the agencies. As a consequence, the agency functional plans are not linked in any meaningful way to appropriations decisions. They do not provide the sort of information on conditions, trends and needs that is necessary to improve executive or legislative decision making. They offer little in the way of measurable objectives by which the intentions of the Executive and the Legislature might be established, progress might be judged, or policies be directed.

The Commission's review of state planning uncovered a number of problems with state planning and its place in the budgetary process. Currently, state agencies devote thousands of staff hours and considerable funds developing agency functional plans that typically have little relation to their own priorities or the pressing needs of the state.

State planning has not worked. But the Commission believes it can. Streamlined and focused, state planning can provide a means to guide and coordinate the major efforts of state agencies. It can help direct

the State's investment in people, programs and communities as intended. And in the process, a reconfigured state planning process will offer the Executive and Legislature the sort of information they must have to identify long run needs and evaluate agency performance.

Most of the Commission's proposals for reconfiguring the planning and needs assessment process were approved as part of a proposal regarding State Comprehensive Plan and Agency Functional Plan Process. It offers several major changes to the process of planning expenditure priorities. Specifically:

1. The State Comprehensive Plan must be revised frequently (every 2 years) if it is to be a meaningful document.
2. The Governor must be responsible for the revision of the Plan, but the revisions should be adopted by the Administration Commission (Governor and Cabinet).
3. The adopted, revised plan should become law unless the Legislature decides otherwise.
4. The Governor should have the responsibility to report annually on the state's progress in meeting the goals in the plan.
5. The Governor's annual report should include an assessment of the state's performance against both "benchmark measures" developed by the agencies in their functional plans and a statement of its progress in providing needed capital facilities.

6. Agency Functional Plans should be streamlined, made more flexible and be tied to priorities related to the State Plan and the agency's statutory responsibilities.
7. Agency Functional Plans should contain program measures that would function as a report card on the agency's performance, serve as indicators of the need for future state action, and provide the basis of program evaluation and public accountability.
8. Agency Functional Plans should be tied to the budget, providing a framework upon which legislative budget and capital facilities requests are made rather than serving as a justification of specific funding requests.
9. The Legislature should establish a Joint Committee to oversee the planning process, review the State Comprehensive Plan and Agency Functional Plans, and provide analyses of trends and conditions whose implications extend well beyond the next session.

Preparation of the Executive Budget

The executive budget is a relatively recent concept. It was not adopted by the federal government until 1921. State and local governments pioneered establishing systematic budgetary practices. Florida created its central budget agency in 1921. In that year, the Legislature established the Budget Commission, comprised of three ex-officio members —

the Governor, Comptroller, and Treasurer. In 1925, the Commission was expanded to include all members of the Cabinet.

The Budget Commission received budget requests from all state agencies and submitted a proposed budget to the Legislature. The Governor served as "the chief budget officer of the state" and chairman of the Commission, but decisions on the budget were made by majority vote. Historically, the Commission did not exercise much budget control over important agencies such as the State Road Department, the State Industrial Commission, and the Florida Citrus Commission which were funded by earmarked revenues.

The Commission and the budget underwent a number of changes over the years. For example, the first budget director was appointed in 1945 and the number of separate funds was reduced from 300 to 5. In 1949, the Legislature reorganized the budget to place most of the over 80 percent of the total state expenditures that had been earmarked into the General Revenue Fund.

Such changes did not affect the collegial nature of budget preparation and administration, however. And in this sense, Florida differed from its counterparts across the country. As a rule, the executive budget was designed as much to overcome a lack of accountability in budgetary matters as to improve efficient prioritizing in the allocation of resources.

Florida's approach to the executive budget was influenced by the legacy of its experience in Reconstruction. The 1885

Constitution was designed to weaken gubernatorial authority. It consciously increased the powers of independently elected cabinet members whose terms of office were not limited like that of the Governor. It provided the foundation for a strong Legislature.

The 1968 Constitution changed Florida government. It did not produce centralized executive accountability, however. The "Governmental Reorganization Act of 1969," gave the Governor primary authority for planning, budgeting and personnel administration through the Department of Administration, but maintained a significant role for the Cabinet in the budgeting process. Notably, the act also retained the Legislature's strong role.

The reorganization plan, pushed by Governor Graham in 1979, set in motion events that ultimately changed both the Governor's and the Legislature's role in the budgeting process. The plan enhanced the role of the agencies in planning and personnel administration while bringing budgeting directly into the Governor's office. But it also caused a reaction. In 1980, the Legislature moved to reassert its role in budgeting by requiring consultation between the Governor's Office and the Appropriations Committees in the instructions used to prepare the budget. Perhaps more importantly it required each agency to submit its budget requests to the Governor and the Legislature simultaneously.

Now agencies submit budget requests to both the Governor and the Legislature through a computerized budgeting system, called the Legisla-



Table 15: Preparation of the Executive Budget Shortcomings in the Current System

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| <ol style="list-style-type: none"> 1. The budget schedule does not allow for the timely submission of budget requests that reflect the recently enacted change in the Constitutional starting time of the legislative session. 2. Current law does not give the Governor adequate authority over and responsibility for budgets submitted by agencies directly under his supervision. 3. Current law gives the Cabinet and Cabinet members greater authority over and responsibility for budgets submitted by agencies under their supervision than that given the Governor. 4. The Legislative Branch is exempt from the requirements of the budgeting law. The Governor is not allowed to review or revise the Legislative Branch's budget request. 5. The state's unified financial management system does not currently link | <ol style="list-style-type: none"> the accounting and budgeting systems in a way that will provide meaningful and accurate information for state policymaking. 6. The current biennial budget has not achieved the objectives for which it was designed and places an enormous administrative burden on the Executive. 7. Legislative Budget Requests submitted by agencies and the Governor do not uniformly reflect the annualized costs of programs and thus can provide misleading information on the implications of program requests. 8. Legislative Budget Requests submitted by agencies and the Governor do not uniformly reflect non-recurring costs of their budget requests and thus can provide misleading information on the long-term implications of program requests. |
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tive Appropriations System/ Planning and Budgeting System (LAS/PBS). The requests, according to law, are supposed to be based on the agency's independent judgment of need. The Governor is not designated as the head of the agencies he supervises. Instead, the act calls for the independent judgment of the Governor's department secretaries. The Cabinet and cabinet members, on the other hand, serve as the heads of the agencies under their control and exercise judgment over the budget process.

In Florida, agency requests often serve as the starting point for a legislative decision making process that has become increasingly professional and

sophisticated. The Governor seldom sets the starting point for budget deliberations. The Legislature uses the agencies' estimates to scan the need for initiatives and obtain a perspective on the Governor's recommended budget.

Agencies do not always exercise their independent judgment of need. And in this sense, the current law does not provide the sort of assessment of programmatic need the Legislature should have. Chapter 216, *Florida Statutes*, does offer the Governor an opportunity to make a budget recommendation. The Governor's recommendations are incorporated as a distinct entry into the computerized budgeting system.

But the weight of such recommendations are undercut by the agencies' submission and timing of the Governor's recommendations.

The preparation of the executive budget is influenced by the relative roles of the Governor, Cabinet and Legislature. It also involves a number of practical matters. The Governor, for example, is required to submit to the Legislature a two year budget recommendation, whose preparation takes considerable time and effort. In theory, the biennial budget should help the state plan and reveal the budgetary implications of initiatives. In fact, this seldom happens. The second year is largely

ignored by both the Executive and the Legislature. The last time the Legislature approved a biennial appropriation was for the 1979-81 biennium. The budgeting process has become an annual, enormously complicated affair.

The Commission feels there must be greater, more centralized accountability for (budget) preparation.

It is precisely because the budget has become so complicated that the Commission feels there must be greater, more centralized accountability for its preparation. This perspective has ramifications for the relative roles of the Legislature, Cabinet and Governor. It also suggests the need for efforts to make the executive budget more accessible to the general public and more explicit about what it entails. In part, this means providing more public hearings for the executive budget. It also means that technical features of the budget having to do with matters such as the continuing costs of programs need to be made more understandable.

The Commission has several recommendations dealing with these matters. The major recommendations propose that:

1. Agencies submit, on the basis of their independent judgment of need, Legislative Budget Requests and five year capital improvement programs to the Governor before they are

forwarded to the Legislature.

2. The Governor be authorized to add, delete or modify budget issues in Legislative Budget Requests for agencies under his direct supervision.
3. The Legislature begin to rely on agency program and benchmark measures to assess, independently of the Executive, the need for new initiatives.
4. The Governor be required to request agencies to develop a target budget with prioritized budget issues in addition issues based on independent judgment of need.
5. The state adopt an annual budgeting process that reflects the annualized costs of programs in the budget and distinguishes between the use of recurring and non-recurring costs.
6. The state budget uses generally accepted accounting principles within three years which incorporate improved information directly from a fully implemented Florida Financial Accounting and Management Information System in five years.
7. The Planning and Budgeting Instructions, including a procedure for constructing a consensus current services budget, be jointly developed by the Governor's Office of Planning and Budgeting and the House and Senate Appropriations Committees.
8. The state adjusts its budgetary cycle to conform with the recent constitu-

tional amendment changing the start of session to allow ample time for reasoned preparation and public review of the agency and executive budgets.

Legislative Consideration and Action on the Budget

The Constitution gives the Florida Legislature the exclusive power to appropriate state funds (Article VII, Section 1). It is among the most significant powers entrusted to the Legislature, and in the final analysis, is fundamental to the Legislature's effectiveness in a variety of matters.

The Legislature is involved in all aspects of the budget process, but some more so than others. It plays a role in establishing the framework for planning and budget preparation through detailed instructions issued in conjunction with the Executive. Legislative members have been known to influence the nature of an agency's budget requests. The Legislature has a continuing role in the administration of the budget through its delegation of legislative budget authority. Its oversight of the budget process, involving monitoring, inspecting and reviewing the execution of program and policies adopted by the Legislature is key to insuring that legislative intent is carried out.

The heart of the legislative involvement though is the appropriations process, conducted in large measure by the committees on appropriations. The structure of the appropriations committees and their operations vary from session to session and according to

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customs of each chamber. In general, the appropriations process begins with a review of the state budget by legislative staff. The appropriations staffs in Florida are nationally regarded for their professionalism and expertise. Staff review typically begins with the calculation of a continuation budget based on approved guidelines. It continues during an extensive round of hearings in which members probe agency requests and collect much of the information used by legislators in their decision making. Staff typically perform extensive analysis of the Governor's and agencies' recommendations and identify outstanding issues for consideration by the member-

ship. In Florida, the House and Senate appropriations committees generally begin their analysis from an agreed starting point and then proceed to develop their respective appropriations bills.

Both staff review and hearings are usually conducted by subcommittees. Subcommittees, laboring in relatively well defined functional areas, build the legislative budget. Their work is founded on subcommittee revenue allocations that have been established by leadership. The revenues and some caseloads on which the allocations are based are produced by a series of consensus estimating conferences. Florida's estimating conferences

are generally considered as a model for the entire country.

Until recently, neither appropriations committees had established formal guidelines to assist the subcommittees in their review of programs and special projects (the so-called "turkeys"). Review was ad hoc, part of an elaborate, highly technical, often extremely political process. In any event, the analytical work of subcommittees has to be coordinated with decisions made throughout each Chamber and thus must recognize a number of factors. Subcommittees must anticipate and incorporate the fiscal implications of substantive legislation flowing through and between each of the chambers.

Table 16: Legislative Consideration and Action on the Budget Shortcomings in the Current System

1. Until recently, the Legislature has not subjected special projects to a rigorous review process, leading to inconsistent and sometimes confusing state expenditures.
2. Appropriations sometimes appear in the Conference Committee Report on the General Appropriations Bill that did not appear in either the House or Senate version of the General Appropriations Bill.
3. The format of the General Appropriations Bill does not provide an easily understood breakdown of the major categories and uses of state expenditures that advances better interpretation of it by the general public.
4. Legislative appropriations are often included in substantive bills and, as a result, escape the line item veto granted the Governor by the Constitution.
5. The Implementing Bill which "implements" or administers the General Appropriations Bill often includes items that are integrally related to state appropriations, but cannot be line item vetoed by the Governor.
6. The current practice used by the Legislature for adoption of the Conference Committee Report on the General Appropriations Bill often does not provide enough time for the members of the Legislature and the general public to understand the contents and implications of the proposed state budget.
7. Current practice, by allowing bills to be stacked and sent in large numbers, impedes the ability of the Governor to do a thorough analysis of the bills submitted for consideration of veto.
8. There is no published document, available to members of the Legislature and the general public, which reflects the "final" budget in detail and provides a report card on legislative decision making.

They must reconcile differences among committees and often deal with changing allocations. Ultimately though, subcommittee recommendations are combined and, after further deliberation, become part of the proposed appropriations bill that goes before the entire membership of the chamber.

Each chamber approves its own appropriations bill. They usually differ in a number of

ways. To resolve such differences, the two chambers establish a conference committee composed of members from each house. The bills are discussed in open public meetings and amended to form the Conference Report on the General Appropriations Act. The Conference Report must be approved by both chambers without any amendments.

In addition to the Conference Report on the General Appropriations Bill, the Legislature also produces the Summary Statement of Intent which shows a side by side comparison of the major issues in the Governor's recommended budget or the agencies Legislative Budget Requests and the Conference Report. The Statement of Intent may also include information to provide additional explanation relative to the purpose, objectives and spending philosophy behind specific appropriations. The Statement of Intent is not law and, therefore, is not supposed to allocate or appropriate any

funds or amend or correct any provision in the Conference Report. It includes the computerized legislative workpapers.

Current law requires that the Summary Statement of Intent, together with the workpapers, be given to the

The Commission reviewed many aspects of the legislative appropriations process and found much to admire. However, it did identify major weaknesses.

Governor no later than five days before the end of the period allowed by law for veto consideration. This information often is not completely compiled until after the time the Conference Report is voted on by the Legislature.

In recent years, the vote on the Conference Committee Report on the General Appropriations Bill has come in the waning hours of the regular legislative session (and in some cases in an extended session). Often members of the Legislature and the general public have only a few hours to review and analyze the contents of the bill before the vote is held. The review process is further complicated by the fact that copies of the bill are generally scarce.

The General Appropriations Bill is broken into a number of sections, 11 in Fiscal year 1990-91. Only Section 1 and Section 2 contain line item appropriations. Section 1 is used to display the line item appropriations and associated proviso language for operational

expenditures, organized by state agency. Section 2 focuses on fixed capital outlay. The Bill does not breakdown expenditures functionally or attempt to group expenditures into major operational elements.

The Conference Report on the General Appropriations Bills is sent to the Governor for approval or line item veto on a schedule determined by the Legislature. In addition to the General Appropriations Bill, appropriations are often approved in substantive bills. In the current fiscal year, there were at least 43 substantive bills which became law containing appropriations totaling almost \$426 million dollars. The Governor does not have line item veto over such bills. The Governor also receives an Implementing Bill from the Legislature. It is a substantive piece of legislation which temporarily amends current law or provides "implementing" or administering provisions for the General Appropriations Bill. It includes items such as the legislative authorization for the state to sell bonds and other provisions necessary to carry out funding provisions. The Governor does not have line item veto on elements of the Implementing Bill.

The Commission reviewed many aspects of the legislative appropriations process and found much to admire. However, it did identify major weaknesses. It suggested a number of reforms, including:

1. Improvement in the appropriations review process that would subject all requests, but especially



**Table 17: Administration of the Budget
Shortcomings in the Current System**

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| <ol style="list-style-type: none"> 1. State agencies are limited in their flexibility to transfer their original approved budget appropriations between appropriation categories and between budget entities. 2. The effective response of the Governor and Cabinet to changing circumstances is slowed by the requirement that the legislative appropriations committees be notified of all proposed budget amendments seven working days prior to their approval, except for those which agencies can accomplish on their own authority. 3. State agencies are limited in their flexibility to reorganize their administrative structures without authorization by the Legislature. 4. Current practice makes it difficult for the state to track and control federal funds. 5. The state's integrated financial management system has not been fully implemented ten years after its creation by the Legislature. 6. The state has not incorporated generally accepted accounting principles into its budgetary process and | <ol style="list-style-type: none"> currently lacks a consistent means of reconciling agency accounting data, Comptroller cash reports, and the adjusted figures reported in each agency's Legislative Budget Request. 7. The Administration Commission lacks the flexibility to delegate authority for the oversight and execution of routine aspects in the administration of the state budget. 8. Most state trust funds, including many of the largest, are not subject to a scrutiny of uniform revenue estimating process. 9. The appropriation of state trust funds can be changed, outside the accountability of the legislative appropriation process, by executive action. 10. The state does not maintain a minimum working capital or "rainy day" fund and allows the existing fund to be used by the Administration Commission to handle matters more properly addressed by the Legislature. 11. The state does not have adequate programs in place to encourage program savings, improve worker productivity, and discourage end-of-the-year expenditures. |
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controls, consultation, and a shifting sense of prerogatives.

Budget implementation in Florida proceeds from a plan of operations consistent with the General Appropriations Act or Special Appropriation Acts. It consists of:

1. The approved budget;
2. Statement of Intent; and
3. Approved annual salary rate.

Implementation is controlled in large measure by a plan of releases which confer the administrative authority to

spend funds at a specified schedule. The Comptroller authorizes expenditures on the basis of the release plan, appropriations, and, for trust funds, available cash.

The Legislature has provided legal means of changing the approved budget through Chapter 216, *Florida Statutes*. The Executive Office of the Governor (EOG) and legislative appropriations committees have established procedures for implementing and monitoring

any changes. Changes can be approved by:

1. Each agency on its own;
2. The EOG plus notice of appropriations committee;
3. The EOG, after consultation plus notice;
4. The Administration Commission plus notice; and
5. The Administration Commission after consultation plus notice.

The extent of discretion delegated varies with the



matters involved. Without going into detail, for example,

1. An agency may change its operating budget when transferring up to 5% of the approved operating budget or making some shifts in authorized positions.
2. An agency may change its operating budget with approval of the EOG on matters such as allocation of lump sum appropriations, consolidation of fixed capital outlay projects, transfer of state trust fund appropriations.
3. An agency may change its operating budget with approval of the EOG after consultation with the legislative appropriation committees on matters such as the receipt and expenditure of additional federal funds.
4. An agency may change its operating budget with the approval of the Administration Commission on matters such as reductions of approved budgets to prevent deficits in the General Revenue Fund, allocation of deficiency and emergency funds, and reorganizations mandated by the Legislature but not included in the General Appropriations Act.
5. An agency may change its operating budget with approval of the Administration Commission and after consultation with the legislative appropriations committees on

matters such as the approval of new programs or additional positions beyond the number provided in the General Appropriations Act.

In Florida, the Administration Commission plays a meaningful role in budgetary adjustments not easily justified in states with a unified Executive. In Florida, the consultation process allows the Legislative Branch to respond in rather well defined situations and provides a means by which the Legislature can identify issues pertinent from its perspective, short of a special session.

The point of such elaborate procedures is to attempt to balance the importance of the change to the operating budget against the need for different types of involvement by the Legislature. Control to legislative intent must be balanced against the flexibility needed to adapt to various unforeseen situations and opportunities.

In its examination of the budgetary administration, the Commission found executive flexibility to be lacking. In crucial ways, the Executive does not have the authority needed to manage state resources effectively or efficiently. Part of the problem rests in the propensity of the Legislature to "micro-manage" agencies and programs.

This tendency appears to have both direct and indirect effects. Clearly, it directly affects the ability of the Executive to make needed budgetary changes. The legislative delegation of budget authority extended in Chapter 216, *Florida*

Statutes, offers less discretion than it profitably might. But its indirect effects may be even more important.

In the best of circumstances, the responsibilities of a plural executive are diffused. Administrative systems must be crafted and tailored to several, often competing, sets of demands. The intricacies of the cabinet system reproduce themselves in administrative interrelationships. As a consequence, best management practice is difficult to achieve. Integration of systems is complicated. The prerogatives of legislative authority only add to the challenge of creating managerial effectiveness. Without flexibility and within a web of responsibilities, management suffers.

The Commission has offered a number of suggestions to improve the administration of the budget by the Executive. The major reforms would provide that:

1. Agencies be given greater flexibility to transfer monies within major funds.
2. The Administration Commission be authorized to delegate budget authority to the Governor's Office of Planning and Budgeting and the current consultation process between the Executive and the Legislature be changed.
3. The Administration Commission be given the flexibility to establish and consolidate divisions of state government to allow for more responsive reorganizations of the bureaucracy.

4. The state abolish trust funds not meeting certain criteria, adopt a periodic review of trust funds held by state agencies, subject more earmarked revenues to the consensus revenue estimating process, and hold more earmarked revenues to the fiscal discipline of the legislative appropriations process.
5. The state limit the use of the working capital fund by the Administration Commission and establish a meaningful minimum "rainy day" fund.
6. The state fully implement the Florida Financial Accounting and Management Information System and provide on going sup-

port to maintain and improve the usefulness of the system to decision makers.

7. The state provide adequate incentives to encourage worker productivity and discourage unnecessary end-of-the-year spending.

Evaluation of Budget Implementation

Government is not as simple as it once was. Its growth and complexity have altered the links maintaining democratic accountability. Accountability once meant holding officials generally responsible for their actions through direct elective mechanisms. Now the web of accountability is more intricate. New tools are used, more are

needed. Indirect machinery has become more important.

In fiscal matters, accountability in public service has been firmly established for quite a while. And in fact, most governments have in place an elaborate set of financial and compliance controls that are designed to establish that the public's money is spent as intended and that financial operations are conducted properly. These financial controls monitor the public's resources to ensure that revenue due the government are actually received, that assets are not lost or stolen, that expenditures are made only for legally budgeted and approved items, and that financial statements accurately reflect the financial position and financial results of a government's operation.

In recent years, the general understanding of governmental accountability has been broadened. It encompasses accountability for the efficiency of programs and assurance that the results of governmental programs and activities are reflected in accomplishments, benefits and effectiveness. It entails an evaluation of how well and to what effect the a government's budget has been implemented.

This evaluation has several different aspects. Traditionally, it has involved financial and compliance audits. Performance auditing has been added of late. It is a systematic process of obtaining and evaluating evidence regarding the performance of an organization, program, function or activity. Typically, it is designed to establish the degree of corre-

Table 18: Evaluation of Budget Implementation Shortcomings in the Current System

1. The state does not maintain a set of performance measures against which the efforts of agencies can be evaluated.
2. The state does not evaluate the mission and performance of entire state agencies systematically.
3. The existing budgetary process does not highlight audit criticisms in a fashion that promotes effective oversight.
4. The follow-up to performance audits conducted by the Auditor General is uneven and the responsibility is diffused through state government.
5. The existing budgetary process often ignores the long term benefits and costs of spending decisions.
6. The responsibilities of the Chief Internal Auditor of each state agency are not well coordinated with the performance audits conducted by the Auditor General.
7. Current law does not require that private-sector alternatives in the delivery of services be considered in its many evaluation processes.
8. The state, by and large, does not provide incentives for agencies and managers to adopt best management practices.

spondence between performance and established criteria.

Florida has made a considerable commitment to evaluating implementation of the budget over the years. As early as 1949, the Legislature acted favorably on the recommendation of the joint House-Senate Tax Survey Committee to appoint a state auditor for ten-year periods with considerable

independence. Florida Statutes requires each state agency to employ a chief internal auditor authorized to review and evaluate internal controls necessary to ensure fiscal accountability. Internal auditors are authorized to conduct performance audits. Florida also has an Auditor General engaged in a wide variety of oversight and monitoring activities. The Auditor General has been nationally recognized for the quality of its performance audits.

The Commission investigated several aspects of the current evaluation system. Without denigrating its strengths, the Commission found several weaknesses in the current practices. These centered on the measures used to monitor performance, the criteria established to evaluate it, the focus and timing of evaluation, and the follow-up given evaluations.

As a rule, the performance measures adopted by the agencies in their Agency Functional Plans and Legislative Budget Requests do not serve the intentions for which they

were intended. In fact, performance measures often relate more to the resources being devoted to an activity than to what the activity accomplishes. Even in those cases where performance measures are

Performance measures often relate more to the resources being devoted to an activity than to what the activity accomplishes.

available and adequate, they often do not capture the real impact of agency activities. As a result, evaluations must often wrestle with fundamental informational problems.

The Auditor General performed well over 150 financial and compliance audits in fiscal year 1990. The Program Audit Division of the Auditor General is charged with the responsibility to audit all major State programs over a 10-year period and responds to special legislative requests. It has conducted 69 audits in the last two years. The quality of the audits is uniformly high. However, they do have a structural weakness. Most often they do not call into question the legislative premises behind the program or activity. They may suggest remediation, but they usually do not explore fundamental restructuring or private sector alternatives.

Under current practice, audit criticisms are addressed both by agency heads and the Legislature. The process usually works well. Most audit comments have to do with procedures that can be corrected by

the agency head and do not require legislative action. At times though, the system breaks down. The agency head, perhaps for legitimate reasons, will disagree with the audit or the relevant committees in the Legislature may have difficulty acting. Additional channels are needed to insure the fullest possible airing of problems identified by the Auditor General's professional, highly trained staff. Their views merit more attention.

The Commission's review of the evaluation of budget implementation uncovered some areas for improvement in state operations and some significant gaps in existing practice. The major recommendations for change are:

1. State agencies should put greater effort in the development of performance measures. These measures should be part of each Agency Functional Plan and the approved budget.
2. The internal auditor of each agency should review its performance measures and make the appropriate recommendations for modifications to the Administration Commission.
3. The state should implement the Office of Policy Analysis and Agency Review created by the 1990 Legislature as a means of providing the periodic review and evaluation of agency programs and mission now absent in the existing evaluation system.
4. The state should adopt a uniform set of program evaluation criteria

throughout the evaluation system to provide a common basis of understanding the efficiency and effectiveness of state programs and activities.

5. The budget process should address audit criticisms as specific issues and require the analysis and justification of new budget issues in terms of their relative costs and benefits.

6. The state should require agency chief internal auditors to monitor and report on the implementation of agency response to the Auditor General's comments.

Recommendations: Beginning to Make the Revenue System Work

The Constitutional responsibilities given the Commission touch all aspects of the fiscal equation. Early on, the Commission decided to evaluate the state's budgeting process and to determine how government can more clearly explain its spending priorities to taxpayers. That step, the Commission decided, was the predicate to any action regarding major tax reform. Government, after all, is a steward of the public's purse. It has a continuing obligation to assure the public that its tax dollars are being spent well.

The Commission currently is investigating the need for additional revenue for state and local government. That investigation must be finished before the Commission can reasonably recommend any fundamental changes in taxation that would result in additional revenues. But short of the completion of this analysis, there is much the Commission can and has done in evaluating the current tax structure of state and local government.

As part of its ongoing review of the tax structure, the Commission initially set about constructing a set of criteria by which to judge the performance of the revenue system. These criteria focus on the system's reliability, adequacy, equity,

exportability, accountability, administration, simplicity, neutrality, functionality, and feasibility. They provide a means of assessing the tax structure without considering whether additional revenues are necessary. They resemble

responsibility of regulating, controlling and administering many of the state's most important taxes. It does this by collecting revenues, processing tax returns, auditing taxpayers, enforcing the payment of underpaid or unpaid taxes and

The Commission currently is investigating the need for additional revenue for state and local government. That investigation must be finished before the Commission can reasonably recommend any fundamental changes in taxation that would result in additional revenues.

similar criteria adopted in the recent report of the Chamber of Commerce Foundation, *Crossroads: Designing Florida's Tax Structure*.

A number of concerns emerged from consideration of the criteria. The first grew out of a direct Constitutional directive in Article XI, Section 6. Namely, the Commission shall "determine measures that could be instituted to effectively gather funds from existing tax sources." This goes directly to the character and effectiveness of tax administration.

Under Chapter 213, *Florida Statutes*, the Department of Revenue is charged with the

educating and assisting taxpayers in complying with the revenue laws of the state.

Each year the department collects billions of dollars in revenues and processes literally millions of tax returns. Many of these returns require review. It is vital that the department audit a portion of registered taxpayers in order to identify and collect underpaid or unpaid taxes. In fact, nationally it is recommended that 4 percent of registered taxpayer returns be audited to achieve maximum compliance. In Florida, the audit coverage for the sales tax was 2.49%. The total audit coverage for all taxes adminis-

tered by the department is approximately 1.53%. In all, about 25,000 audits were performed in fiscal year 1990.

The state, through the use of increased audits, could improved administrative procedures and greater taxpayer knowledge, reduce the amount of underpaid and unpaid taxes. The Commission recommends that this tax gap be addressed by the Department of Revenue, and the Legislature. Specifically, it recommends that the Department be given the resources to modernize its computerized processing and collection capabilities. In addition, the Department should establish comprehensive employee training and taxpayer education programs to increase the levels of voluntary compliance. As a matter of policy, the Commission feels that future budget requests by the Department of Revenue should be made contingent upon achieving performance standards established in law.

The Constitution directs the Commission to "review policy as it relates to the ability of state and local government to tax and adequately fund governmental operations and capital facilities required to meet the state's needs during the next ten year period." The Commission is still in the process of evaluating the need mentioned in the Constitution. In one area though, the need is clear and the situation urgent. Many local governments need additional flexibility in their revenue systems to cope with the exigencies of the economic downturn, the concurrency requirements of the Local

Government Growth Management and Land Development Regulation Act, and the prospects of capital funding shortfalls that may result in development moratoria.

It is generally recognized that growth and development in unincorporated areas has created the demand for municipal services in the absence of appropriate financial structures. This flaw combined with the provisions of the growth management act establishing level of service standards for infrastructure (such as state roads) has created serious problems. Several local governments require immediate infusions of capital in the absence of long term financial instruments. An existing backlog of infrastructure deficits threatens future development in an economy already racked by serious declines in construction.

The Commission's investigation of this problem lead it to recommend modification of the current local government infrastructure surtax, in subsection 212.055, *Florida Statutes*. It called on the Governor and Legislature to respect the tradition of local

Table 19: High Quality Revenue System Criteria

A quality revenue system should have the following characteristics:

- Reliability - Produces revenues reliably over fluctuating economic cycles.
- Adequacy - Capable of producing required revenues.
- Equity - Applied fairly to all taxpayers.
- Competitiveness - Fosters operation of a free market economy.
- Exportability - Distributes tax burden as equitably as possible.
- Accountability - Includes mechanisms to identify how revenues are collected; by whom; where deposited; and where, how, and when expended.
- Administration - Capable of being administered efficiently and effectively.
- Simplicity - As simple as reasonably possible.
- Functionality - Integrated and coordinated.
- Political - Operates within the reality of political considerations.

home rule and the accountability provided by local representative government. Specifically, the Commission recommends deleting the current requirement for a referendum and requiring a super majority vote of the county governing authority to impose the surtax. A super-majority is a majority of the governing board plus one. In addition, the Commission recommended deleting those provisions of the law limiting the uses of the revenues. In short, the Commission recommends that the Legislature and Governor rely upon local electoral processes to insure accountability and that local governments be given greater flexibility in the use of this source.

Future Activities

The Commission has just begun its work. It has tackled most of its ten constitutional responsibilities and completed several. But it has a long way to go and a relatively short time to get there.

The Commission has several studies underway and numerous proposals yet to consider. In the coming months, it will produce an estimate of the anticipated expenditure demands facing state and local government. It will complete an examination of the mandates placed on state government by the federal courts to provide established levels of service in various delivery systems. It will conclude its examination of sales tax expenditures and review work on the incidence of major state taxes. It will generate an estimate of the revenue capacity

of state and local governments. It will examine the implication of major changes in the operation of various state and local services.

In addition, the Commission will:

- Review the funding formulas for public education (K-12);
- Review the relative fairness of various methods of taxation;
- Determine which revenue sources should be used by local government, which by state government, and the degree of permissible overlap; and
- Consider how, if at all, the state's tax structure should be changed.

As part of its charge, the Commission will examine the constitutional limitations on taxation and expenditures at the

state and local level. It also will have to consider how its current recommendations have been received. It may have to reevaluate many of the recommendations made to the Governor and Legislature for constitutional change. And it may elect to place constitutional proposals before a vote of the people.

The Commission must concern itself with taxation. It has difficult choices ahead. During another turbulent time, Edmund Burke addressed the challenge. In his Speech on American Taxation in 1774, he argued that "To tax and to please, no more than to love and to be wise, is not given to men." Perhaps. But it is doubly true, if in a concern for taxation, the fiscal equation is forgotten. Reform must be broadly implemented and well aimed.

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Improving Taxpayer Compliance

The Florida Taxation and Budget Reform Commission finds:

1 The Department of Revenue is responsible for administering a majority of the revenue laws of this state.

Under chapter 213, Florida Statutes, the Department of Revenue is charged with the responsibility of regulating, controlling, and administering the Local Option Tourist Development Tax, the estate tax, the excise tax on documents, the gross receipts tax, motor and other fuel taxes, the tax on operation of commercial motor vehicles, the tax on oil and gas and severance of solid minerals, the tax on sales and use and other transactions, administration of designated non-property taxes, the corporate income tax, emergency excise tax, the insurance premium tax, and other taxes and fees. The Department of Business Regulation is responsible for administering the alcoholic beverage and tobacco taxes and the pari-mutuel taxes.

2 The Department of Revenue carries out its administrative responsibilities by collecting revenues from a variety of taxes, fees, and charges, processing tax returns, auditing taxpayers, enforcing the payment of underpaid or unpaid taxes, and educating and assisting taxpayers in complying with the revenue laws of the state.

In 1989-1990, The Department of Revenue collected over \$13 billion in revenues and processed 6.5 million tax returns, 1.2 million of which

required review. Such review generated an additional \$240 million. The Department reviews approximately 750,000 returns each month for delinquent payment or underpayment of tax. During 1989-1990, 360,000 returns were reported delinquent and 700,000 returns were assessed additional taxes.

3 A significant audit coverage of registered taxpayers is essential to identifying and collecting any underpayment or nonpayment of taxes.

The percent audit coverage generally recommended to achieve maximum compliance and collections is 4 percent. The Department of Revenue's Division of Audit performed approximately 25,000 audits in 1989-1990. The audit coverage for the sales tax was 2.49 percent and for the corporate income tax, .76 percent. The intangibles tax for individuals was the lowest at .34 percent and the documentary stamp tax on court recorded documents was 72.26 percent. The current total audit coverage for all taxes administered by the department is approximately 1.53 percent.

4 There exists in virtually every tax imposed by the state of Florida a gap between the total amount of taxes actually collected and the total amount of taxes which are due and owing to the state.

In the sales tax alone, there is an estimated tax gap, taxes which are due but have not been paid or collected, of approximately \$730 million. A tax gap also exists in other taxes the extent of which has not been determined yet.

Findings



Findings (continued)
Taxpayer Compliance

5 The cause of a tax gap is less than full compliance with the revenue laws of the state. A tax gap exists due to factors which operate at the taxpayer level and at the level of the Department of Revenue. Full compliance is virtually impossible but current levels of compliance can be improved to the extent both the Department of Revenue and taxpayers are enabled to achieve it.

At the level of the taxpayer, a tax gap is caused by taxpayer ignorance, accounting errors, taxpayer disputes with the department, and fraud and

negligence. At the level of the Department of Revenue, it is compounded by the department's inability to efficiently and effectively administer the tax laws and process tax returns. The Department of Revenue can increase taxpayer compliance and tax collections and materially reduce an existing tax gap by upgrading its current computer and data processing capabilities, modernizing its tax processing and return handling capabilities, improving its training of department employees, and improving its education of taxpayers in the application of the tax laws and the rules of the department.

Recommendations

The Florida Taxation and Budget Reform Commission recommends:

1 *The current gap between taxes legally due and owing to the state and taxes actually collected shall be addressed by the Department of Revenue and that the department be enabled to reduce the tax gap to the greatest extent practicable.*

2 *Increasing the level of voluntary compliance with the state's revenue laws and the department's rules implementing those laws; identifying and collecting any underpayments or nonpayments of taxes; and educating and assisting taxpayers in paying taxes are the most effective ways of reducing the tax gap.*

3 *Department of Revenue's ability to process taxes, assess taxes, and collect taxes shall be improved and modernized to reflect the current most efficient and most effective computer and tax processing and collection capabilities.*

4 *The Department of Revenue shall be authorized to establish comprehensive employee training and taxpayer education programs.*

5 *The approval of any budget request made by the Department of Revenue shall be accompanied by the imposition of performance evaluation criteria and standards and that approval of future budget requests by the Department of Revenue be contingent upon satisfactory achievement of such performance standards. The Commission further recommends that the Department of Revenue be required to provide to the Governor and to the Legislature as part of any budget request, the basis for which is the ability of the department to increase revenue collections, a statement of how much in additional revenues are expected to be collected during the five year period following the approval and implementation of such budget request.*

Local Option Sales Tax Flexibility

The Florida Taxation and Budget Reform Commission finds:

1 Subsection (2) of section 212.055, Florida Statutes, authorizes the governing authority in each county to levy a discretionary sales surtax as follows:

- a. The discretionary sales surtax can be levied at a rate of 0.5 or 1 percent.
- b. The discretionary sales surtax can be levied for a period of up to 15 years.
- c. The discretionary sales surtax can be levied pursuant to ordinance enacted by a majority of the county governing authority and approved by a majority of the electors of the county voting in a referendum on the surtax.
- d. The discretionary sales surtax can be levied to finance, plan, and construct infrastructure but not to use the proceeds or any interest accrued on such proceeds for operational expenses of any infrastructure.

- e. Infrastructure means any fixed capital expenditure or fixed capital costs associated with the construction, reconstruction, or improvement of public facilities which have a life expectancy of 5 or more years and any land acquisition, land improvement, design, and engineering costs related thereto.
- f. Counties and municipalities may not use surtax proceeds to supplant or replace user fees or to reduce ad valorem taxes existing prior to the levy of the surtax.
- g. No referendum proposing the levying of the surtax may be held after November 30, 1992.

2 Local governments need realistic access to sources of revenue to enable them to meet the demands of concurrency and to operate government. Elected local officials are accountable to their constituents and are responsible for representing their interests in wisely imposing taxes and spending revenues.

Findings

The Florida Taxation and Budget Reform Commission recommends:

1 The provisions of subsection (2) of section 212.055, Florida Statutes, shall be amended to replace the referendum requirement with one

which requires only a supermajority vote, defined to be a majority plus one, of the county governing authority to impose the surtax and to delete the provisions of the subsection limiting the imposition of the surtax and uses of revenues.

Recommendations



State Comprehensive Plan and Agency Functional Plan Processes

Findings

The Florida Taxation and Budget Reform Commission finds:

1 The Florida State and Regional Planning Act of 1984 (Chapter 84-257, Laws of Florida) required the development and adoption of a State Comprehensive Plan (SCP) and it also established an integrated planning and budgeting system through which the SCP was to serve as the guide for agencies and their programs operating at both the state and regional levels.

The law required the Executive Office of the Governor (EOG) to develop and recommend to the Administration Commission (Governor and Cabinet) a proposed SCP by December 1, 1984. The law directed EOG to develop a SCP "which provides long-range guidance for the orderly social, economic, and physical growth of the state." The plan was to be composed of goals and policies that were briefly stated in plain understandable words. The goals and policies were to be statewide in scope and were to be consistent and compatible with each other. Finally, the plan was to give specific policy direction to state and regional agencies.

EOG held public hearings on the proposed SCP and it incorporated numerous revisions and amendments into the proposed SCP before transmitting it to the Administration Commission for approval. The Administration Commission made only minor changes to the proposed SCP and transmitted it to the Legislature on March 6, 1985.

The SCP transmitted to the Legislature was divided into 5 general issue areas each of which contained measurable goals and time specific outcomes.

The SCP which became law was a compromise developed by a conference committee and it was significantly different from the original plan submitted to the Legislature by the Administration Commission. The major differences between the two plans was the absence of quantifiable measurable goals and specific time-frames for outcomes in the SCP enacted into law. The SCP submitted to the Legislature on March 6, 1985 contained 29 quantifiable goals with specific time frames. The SCP enacted into law (Chapter 187, Florida Statutes) contained only a few quantifiable goals with specified time frames.

2 The SCP is not restricted to an advisory role, but it does not give agencies the authority to act in the absence of regular statutory authority.

The SCP is intended to guide the actions of state agencies, regional councils and districts, and local governments. The SCP was intended to be a direction-setting document. The policies articulated in the plan are to be implemented only to the extent that financial resources are provided pursuant to legislative appropriation. The SCP did not create any regulatory authority or authorize the adoption of agency rules, criteria, or standards not otherwise authorized by law.

3 The SCP enacted into law consisted of goals and policies in 26 areas.

By law, the goals and policies contained in the SCP are to be reasonably applied where they are economically and environmentally feasible, not contrary to the public interest, and consistent with the protection of private property rights. The SCP is to be applied as a whole and no specific goal or policy is to be construed or applied in isolation from the other goals or policies in the plan.

The law defines goals as "long term ends toward which programs and activities are ultimately directed" and policy is defined as "the way in which programs and activities are conducted to achieve an identified goal."

By definition, policies should provide direction to the Governor, state agencies, regional planning councils, special districts, and local governments about how the Legislature intends the SCP goals to be achieved. In addition, goals should be meaningful and measurable.

However, many of the policies in the SCP are actually goals or sub-goals and most of the statements designated as goals in the SCP are unquantifiable. Because the goal and policy statements in the SCP are ambiguous, they are difficult to use and evaluate. Therefore, progress in achieving the goals in the SCP can not be assessed.

4 Without clear goals and measurable objectives in the SCP, it is difficult to link budgetary decisions with state policies and to evaluate the effectiveness of public programs.

5 The State Agency Functional Plan (AFP) was designed to serve as the basis of a strategic management process capable of developing and tracking agency objectives. In addition, the AFP was to be used by agencies to develop their Legislative Budget Request and Strategic Information Resource Management Plan.

Unfortunately, the AFP's have essentially become compliance documents. For the most part, AFP's are not being used by top agency management as the strategic plan for the agency nor are AFP's being used by top agency management to prepare their agency budget request.

6 Each state agency in the executive branch must submit its AFP to the Office of Planning and Budgeting within the Executive Office of the Governor (EOG) no later than November 1 of each odd numbered year.

Prior to the submission of the AFP to EOG, each agency is required by law to hold public workshops on its proposed AFP and to allow for at least a twenty one day period for public comment. EOG is required by law to review the proposed plan for consistency with the SCP and to return the proposed plan within sixty days with any proposed revisions and comments.

The state agencies have thirty days to incorporate EOG's revisions or petition the Administration Commission (Governor and Cabinet) to resolve any disputes. The Administration Commission must resolve any dispute within 45 days of receipt of the petition.

Each state agency is required to transmit its AFP and all public comments on its plan to the President

*Findings (continued)
SCP/AFP Processes*

Findings (continued)
SCP/AFP Processes

of the Senate and the Speaker of the House no later than thirty days prior to the next regular legislative session.

7 Generally, the AFP covers a four year time span.

However, time frames may be expanded to meet individual needs. The AFP is one of the source documents agencies use to develop their next Legislative Budget Request and their Strategic Information Resource Management Plan.

8 A work-group comprised of state agency and EOG staff has just finished reviewing the AFP process.

Suggested modifications to the procedures relating to the development of AFP's by the work-group will be incorporated in the instructions for the next AFP.

One of the recommendations of the work-group is that the AFP format should be flexible according to different agency needs. However, certain components would be necessary. The required components would include:

- a. Executive Summary;
- b. Mission Statement;
- c. Trends and Conditions Statements (the Trends and Conditions Statement would include a section which discusses how the trends and conditions for the next ten to twenty years will affect the agency and its programs);
- d. Priority Issues and Agency Objectives (with program measures at the agency or budget entity level);
- e. Strategies;
- f. Florida Benchmark Measures (100 statewide indicators that would measure the physical, social, and economic health of the State in broad terms); and

g. Miscellaneous.

- 1) Identification of AFP/SCP Relationships,
- 2) Authorizing Laws or Statutes for the Agency and a List of Agency Programs,
- 3) Table of Contents,
- 4) Explanation of AFP Format, and
- 5) Bibliography.

9 The House of Representatives Select Committee on Strategic Budget Planning which studied the state planning processes for two years has suggested that at a minimum the following changes are necessary if the planning process is to achieve its full potential:

- a. Revise the SCP to reflect current trends and conditions.
- b. Revise the SCP to provide meaningful goals with measurable ends.
- c. Revise the AFP to produce strategic plans which clearly articulate state agency priorities and the state agency proposed actions to achieve the priorities.
- d. Integrate the SCP and AFP with the budget process to provide state policy makers strategic guidance for the allocation of the state's limited resources.
- e. Identify emerging trends and conditions for use by state policy makers.

10 Some groups have suggested that the SCP should be revised to include governmental productivity and information resources management as goals and policies.

11 Since the SCP and AFP processes are established by statute, law changes will be necessary for any revisions.

Even though many of the shortcomings of the present SCP and AFP processes have been pointed out by various groups since 1985 there have not been any major proposals for revision adopted by the Legislature.

The State has not yet developed a means to regularly reconsider and revise the SCP in light of changing conditions and events. Section 186.006, Florida Statutes requires the Governor to "identify and monitor on a continuing basis statewide conditions and trends which impact the state" and to "prepare and update or revise regularly the state comprehensive plan."

The Graham administration began trend monitoring and issue scanning but these activities were not continued by the Martinez administration. Trends and conditions are not being identified and monitored by either the Executive or Legislative Branches.

12 There has been a lack of commitment to planning by state agencies and to the

integration of planning and budgeting by the elected leaders of the Executive and Legislative Branches of Florida government.

One of the most significant shortcomings of the state's planning processes is that neither the staffs nor the elected officials in the Governor's Office or the Legislature were using the SCP or the AFP to guide their considerations about resource allocations.

Florida's statutes and the Planning and Budgeting Instructions call for "linkages" between agency planning and budgeting. Agencies' budgets are supposed to be developed and reviewed according to their approved plans. However, when reviewers fail to use the plans to guide their own reviews of the agencies' budget requests, a clear signal is transmitted that planning makes little difference to resource allocations (i.e. General Appropriations Bill).

Consequently, agencies neglect planning since it makes little difference to resource allocation decisions.

Findings (continued)
SCP/AFP Processes

The Florida Taxation and Budget Reform Commission recommends:

STATE COMPREHENSIVE PLAN (SCP) PROCESS REVISIONS

1 The Executive Office of the Governor (EOG) shall be required to recommend revisions to the SCP by October 1 every odd numbered year beginning in 1991 and to present these recommendations to the Administration Commission by November 1 of the same year.

The revisions to the SCP shall be developed by the EOG and assisted by a task force comprised of staff members from the state, regional, and local planning communities and other interested private citizens. The task force shall include at least one representative for each Cabinet Officer and two staff members representing the President of the Senate and two staff members representing the Speaker of the House of Representatives. The task force shall utilize the information and experience gained from the local comprehensive plans and the regional comprehensive plans that have been

Recommendations

FINDINGS & RECOMMENDATIONS

Recommendations (continued) SCP/AFP Processes

found to be "in compliance" when developing revisions to the SCP.

In preparing revisions to the SCP, the EOG shall include revisions to the 26 existing goals and policies in the SCP and the EOG would include new program areas such as: governmental productivity and information resources management.

The EOG shall be required to ensure the revisions to the SCP provide meaningful goals with measurable ends.

In addition, the EOG shall include in the revisions to the SCP a section regarding the statewide goals and policies related to the opportunities, problems, and needs associated with growth and development in the state.

The Administration Commission could amend the recommended revisions. The revised SCP along with any amendments approved by the Administration Commission shall be transmitted to the Legislature by December 15.

2 The Legislature shall adopt legislation during the 1991 regular session which provides for the "sunset" or repeal of the current SCP effective July 1 of every even numbered year. This legislation shall also contain a provision which states that unless the Legislature amends the revised SCP sent to it by the Administration Commission or the Legislature re-adopts the current SCP, the revised SCP sent to the Legislature by the Administration Commission will go into effect July 1 of every even numbered year and thus replace the current SCP.

SCP ANNUAL REPORT

3 The Governor shall annually report on the progress on furthering the goals of the SCP in the Governor's State of the State Address to the Legislature. The report shall include the efforts not only of the Executive branch but also should include a report on the effect the actions of the Judicial and Legislative branches have had in regard to furthering the goals of the SCP. The progress report shall summarize the contents of the Governor's annual report which is required by Section 186.031, Florida Statutes.

4 The Governor's annual report required by Section 186.031, Florida Statutes shall be produced by February 1 of each year and the required information be displayed in one document. The report shall also include a section on the "Florida Benchmark Measures" information consolidated from the state agencies' AFP.

5 The Governor's annual report on the capital facilities planning and budgeting process required by Section 216.0162, Florida Statutes, shall be a separate section in the Governor's annual report as required by Section 186.031, Florida Statutes in lieu of having a separate report on this topic.

GOVERNOR'S REPORT ON TRENDS AND CONDITIONS

6 The Governor shall biennially report on the trends and conditions which will affect the state. This report shall make projections for as long a period as there is reliable data

available but in no circumstance should the projections exceed a twenty year period. The Trends and Conditions Report shall be drawn from the data contained in the trends and conditions section of the AFP and other information maintained by the State Data Center and the Florida Estimating Conferences. The Trends and Conditions Report shall be produced by February 1 of each odd numbered year. The EOG would be authorized to contract with public agencies, private firms, or consultants to assist in the development of the annual trends and conditions report.

AGENCY FUNCTIONAL PLAN (AFP) PROCESS REVISIONS

7 The AFP shall be submitted by each state agency within the Executive Branch to the EOG by August 1 each year to better integrate the planning and budgeting processes.

8 The AFP format shall be flexible according to different agency needs. However, certain components would be necessary. The required components shall include:

- a. Executive Summary;
- b. Mission Statement;
- c. Trends and Conditions Statements (the Trends and Conditions Statement would include a section which discusses how the trends and conditions for the next ten to twenty years will affect the agency and its programs);
- d. Priority Issues and Agency Objectives (with program measures at the agency or budget entity level);

- e. Strategies;
- f. Florida Benchmark Measures (100 statewide indicators that would measure the physical, social, and economic health of the State in broad terms); and
- g. Miscellaneous:
 - 1) Identification of AFP/SCP Relationships;
 - 2) Authorizing Laws or Statutes for the Agency and a List of Agency Programs;
 - 3) Table of Contents;
 - 4) Explanation of AFP Format;
 - 5) Bibliography; and
 - 6) Cost of Preparing the AFP.

An additional component shall be an assessment of inconsistencies between the SCP and other statutes with any recommended revisions to either the SCP or statutes.

9 The AFP shall be developed with a five year outlook. The first year of the plan shall contain the priority issues and objectives the agency will be able to implement given the level of resources provided by the Legislature. In addition, the first year component shall contain program measures which would function as a report card on the agency's performance for previous fiscal years. The component for years 2-5 shall be based on what the agency would like to accomplish within that period. This component of the AFP shall serve as the frame of reference for the agency's Legislative Budget Request, Capital Facilities Plan, Strategic Information Resource Management Plan, and the like.

10 State agencies shall involve local and regional

Recommendations
(continued)
SCP/AFP Processes



*Recommendations
(continued)
SCP/AFP Processes*

governments and the general public more in the development of their AFPs.

11 The AFP shall serve as the framework by which state agencies develop their budget issues and their agency Strategic Information Resource Management Plans. The budget issues shall explain the resources (appropriations and positions) that are necessary to accomplish the agency objectives.

12 The AFP shall be consistent with and further the goals of the SCP.

13 Agency actions shall be consistent with the AFP and any statutes that are inconsistent with the SCP shall be identified and repealed.

SCP/AFP OVERSIGHT

14 The Legislature shall establish a Joint Committee on Strategic Planning to: (1) oversee the state planning processes, (2) review the trends and conditions affecting the state, (3) review and consider the proposed revisions to the SCP and AFP processes, (4) review state agency AFP, and (5) produce a report each odd numbered year on the state planning process.

15 The EOG's Office of Planning and Budgeting shall be renamed the Office of Strategic Planning and Budgeting and a position for a Deputy Director for Strategic Planning shall be established within the office.

16 The EOG shall develop an ongoing program of education, training, and assistance to promote the AFP process.

*PROGRAM EVALUATION
AND ACCOUNTABILITY*

17 Each state agency shall be required to hold a public meeting on their proposed AFP program measures before the AFP is submitted to OPB. The AFP program measures shall be developed in such a way to ensure there is input from the general public, the EOG and the Legislature (Appropriations Committees, Joint Committee on Strategic Planning and the Office of Policy Analysis and Agency Review). These same AFP program measures shall also be used for the Legislative Budget Request and for the consultant who will perform the "sunset review" on the agency.

18 The Auditor General, the Office of Policy Analysis and Agency Review, and agency internal auditors shall utilize the AFP program measures and uniform program evaluation criteria when conducting performance audits of state agency programs.

19 The EOG shall coordinate and have oversight responsibilities for the collection of the "Florida Benchmark Measures". The information contained in the "Florida Benchmark Measures" database shall be included in the Governor's annual report. In addition, the EOG shall develop and maintain a database which

summarizes the data contained within each state agency's AFP in order to provide policy makers in the Executive and Legislative branches an overview.

DECISION SUPPORT SYSTEM

20 Within 5 years, the State shall develop an integrated decision support system. A component of the decision support system shall provide the capability to allow elected officials and the general public to "link" appropriations and performance measures to programs.

21 A process shall be established so that pro-

grams may be defined through a consensus process and that each program have measurable objectives.

22 Functional groups for management information such as Education, Growth Management, Criminal Justice/Law Enforcement, Health and Rehabilitative Services, Licensing and Regulation, and the like be established to respond to goals and policies within the State Comprehensive Plan. A governance and planning staff shall be established for each functional group similar to the current Florida Fiscal Accounting Management Information System (FFAMIS) and the Growth Management Network Coordinating Council.

*Recommendations
(continued)
SCP/AFP Processes*

Executive Branch Budget Authority

Findings

The Florida Taxation and Budget Reform Commission finds:

1 By law, each state agency head must develop a budget for operational and capital expenditures "based on the agency's independent judgment of its needs."

The advantage of this approach is that it allows for a discussion of perceived needs for resources in comparison to the existing current service and funding levels.

One disadvantage of this approach is that it results in a situation where the total of all of the agencies' budget requests often exceed the estimated revenues for the General Revenue Fund by 20 - 40 percent.

Another disadvantage to this approach is that it precludes the Governor from being able to control the Legislative Budget Request for the agencies under his direct supervision since the law designates the agency head for those agencies is a Secretary and not the Governor.

The Cabinet and Cabinet members are able to control the Legislative Budget Requests for the agencies under their direct supervision since they are designated by law as the agency head.

2 Florida is one of the twenty three states which allow for funding level targets to be used by state agencies when developing their budget requests.

In 1989, the Florida Legislature amended the state budgeting law to allow the Executive Office of the

Governor to request agencies to submit a budget plan with respect to targets established by the Governor. However, the law states that "such a request shall not influence the agencies' independent judgments in making Legislative Budget Requests." So far, the Executive Office of the Governor has not utilized this authority.

3 State agency Legislative Budget Requests are due simultaneously to the Legislature and the Governor's Office of Planning and Budgeting (OPB) no later than November 1 of each year.

The November 1 deadline for the agency Legislative Budget Request was appropriate when the Legislature began their regular session in April. This deadline may need to be altered to accommodate the new meeting times for the Legislature as a result of the recently adopted constitutional amendment.

Agencies develop their Legislative Budget Request using the Legislative Appropriations System/Planning and Budgeting System (LAS/PBS). While the agencies are developing their Legislative Budget Request, LAS/PBS resides on the Comptroller's Data Center. After the agencies have submitted their Legislative Budget Request, the LAS/PBS is transferred to the Legislative Data Center. Agencies do not have direct access from their computer terminals to LAS/PBS while it resides on the Legislative Data Center. If agencies wish to amend their budget request, they must use the computer terminals located within the Governor's Office of Planning and Budgeting.

4 The form and content of the agency Legislative Budget Request and the Governor's Recommended Budget are established by law. The budget instructions used by the state agencies are jointly developed by the Legislative Appropriations Committees and OPB. These instructions must be sent to the state agencies no later than August 1 of each year.

The August 1 deadline for the agency Legislative Budget Request was appropriate when the Legislature began their regular session in April. This deadline may need to be altered to accommodate the new meeting times for the Legislature as a result of the recently adopted constitutional amendment.

5 OPB reviews a preliminary copy of each state agency's Legislative Budget Request for technical compliance with the format outlined in the budget instructions. Each state agency is required to make the appropriate corrections in their final Legislative Budget Request. OPB is authorized to make the changes if the agency fails to do so.

6 The Department of General Services reviews the agencies' capital improvements budget request and makes written recommendations to the Legislature and OPB regarding the request and alternatives to the request.

7 The Information Resource Commission reviews the agencies' information resources

management (data processing) budget request and makes recommendations to the Legislature and OPB regarding the request and alternatives to the request.

8 OPB is required to hold at least one public hearing on the issues contained in the state agencies' Legislative Budget Request.

9 The Florida Constitution and various state statutes prohibit the expenditure of any funds from the State Treasury without a valid appropriation.

Consequently, the General Appropriations Act contains inter-agency fund transfers. A conservative estimate is that the current General Appropriations Act contains over a billion dollars in "double budget" amounts. The amount of "double budget" is only an estimate since there is currently no systematic way to identify all of the "double budget" items.

10 The state budget process uses the four legal funds as outlined in section 215.32, Florida Statutes (General Revenue, Trust, Working Capital and State Infrastructure) instead of the traditional fund accounting concepts. However, the combined statewide financial statements are prepared according to generally accepted accounting principles (GAAP). The State Comptroller's Office prepares a reconciliation between the legal fund approach and GAAP. This reconciliation is included in the combined statewide financial statements. The statewide financial state-

*Findings (continued)
Executive Branch Budget
Authority*

FINDINGS & RECOMMENDATIONS

*Findings (continued)
Executive Branch Budget
Authority*

ments are not published until six to eight months after the close of the prior fiscal year.

11 Even though federal funds contribute more than 20 percent to the state's budget, the state's accounting and budgeting systems ability to track and monitor the receipt and expenditure of federal funds at a statewide level is limited.

12 The 1980 Legislature passed the Florida Fiscal Accounting Management Information System Act. The intent of this legislation was for the executive branch, in concert with the Auditor General's Office and the Legislative Appropriations Committees, to design and implement a unified financial management system. This system is often referred to by the acronym FFAMIS.

FFAMIS was intended "to strengthen and standardize management and accounting procedures; strengthen internal controls; enable the preparation of objective, accurate, and timely fiscal reports; report on the stewardship of officials who are responsible for public funds and property; and provide timely and accurate information for decision-making purposes."

There are seven subsystems within FFAMIS which require that all of the subsystems utilize identical data codes and the accounting system's chart of accounts. The law also requires that FFAMIS "shall be designed, installed, and operated in a fashion compatible with the legislative appropriations system, so as to provide timely data for producing financial statements for the state in accordance with generally

accepted accounting principles." The seven subsystems within FFAMIS are:

- a. State Automated Management Accounting Subsystem (SAMAS);*
- b. Planning and Budgeting Subsystem;*
- c. State Personnel Payroll Information Subsystem;*
- d. Revenue and Regulations Subsystem;*
- e. Banking and Collateral Securities Subsystem;*
- f. General Services and Purchasing Subsystem; and*
- g. Investment and Debt Control Subsystem.*

Section 215.94, Florida Statutes, outlines the seven subsystems or components of FFAMIS and directs each functional owner of a FFAMIS subsystems to work with the Auditor General's Office to assure that the information within each subsystem is able to be audited and has the necessary internal controls.

The Governor, the Comptroller and the Treasurer constitute the Fiscal Accounting Information Board. This Board is responsible for the development of rules and policies to ensure the successful implementation of FFAMIS and to adopt the FFAMIS Strategic Plan for Information Resources Management.

In addition, there is a FFAMIS Coordinating Council which serves as staff to the Fiscal Accounting Information Board. The Council also reviews and recommends to the Fiscal Accounting Information Board solutions and policy alternatives to ensure coordination between the various functional owners of the FFAMIS subsystems.

13 The General Appropriations Bill only reflects ex-



penditures and does not contain the revenues used to fund the appropriations.

Unlike local government budgets or the Governor's Recommended Budget, the General Appropriations Bill does not contain any document or financial schedules which reflect the revenue assumptions upon which the appropriations are based.

14 The Legislative Branch is exempt from the requirements of the budgeting law. The Governor is required to place in his Recommended Budget the budget request of the Legislative branch. The Governor is not allowed to review or revise the Legislative Branch's budget request.

15 Even though the Governor is designated by statute as the state chief budget officer, the Administration Commission plays a significant role in the oversight of the state budget execution.

The Administration Commission is composed of the Governor and Cabinet. The Governor is the Chair of the Commission. Unless otherwise provided by law, affirmative action of the Commission requires the approval of the Governor and at least three other members of the Commission. The Commission is organizationally part of the Executive Office of the Governor.

The Administration Commission has the statutory authority to do the following:

- a. Authorize the transfer of General Revenue appropriations in excess of \$2,000;

- b. Authorize the reduction of state agency budgets to avoid a deficit;
- c. Authorize positions in excess of those fixed by the Legislature;
- d. Approve the release of the "Deficiency" and "Emergency" appropriations;
- e. Approve the temporary transfer of money between state funds;
- f. Establish and/or consolidate trust funds;
- g. Authorize the initiation of new programs;
- h. Approve the transfer of dollars and positions in order to implement agency reorganizations that were authorized by the Legislature but for which the necessary adjustments were not included in the General Appropriations Act;
- i. Hear and decide Sheriff's and Property Appraiser's budget appeals;
- j. Designate Areas of Critical State Concern; and
- k. Review the State Comprehensive Plan and resolve disputes on State Agency Functional Plans and Local Comprehensive Plans.

16 At the start of each fiscal year, OPB develops the Original Approved Budgets for operational and capital expenditures for each state agency.

The Original Approved Budget adjusts the General Appropriations Bill for vetoes. The Original Approved Budget also includes adjustments for appropriations contained in substantive legislation and adjustments for appropriations which were contingent upon the passage of other substantive legislation. Within thirty days of the start of the fiscal year, OPB develops the Annual Plan of Releases for each state agency. The plan of releases

*Findings (continued)
Executive Branch Budget
Authority*

FINDINGS & RECOMMENDATIONS

Findings (continued)
Executive Branch Budget
Authority

reflects the cash needs by each quarter of the fiscal year and by law is required to maximize the use of trust funds.

17 Within 45 days of the start of the fiscal year each state agency must submit its request to "carry forward" unspent but obligated funds of the prior fiscal year to OPB. The items not requested by the agency for carry forward and the funds not approved for carry forward by OPB revert back to the fund from which they were originally appropriated. Agencies have the funds which were approved for "carry forward" at their disposal for six months after the close of the prior fiscal year.

18 During the fiscal year the state agencies submit requests to OPB in order to amend their Original Approved Budgets. Some of the budget amendments can be approved by OPB and other amendments require the approval of the Administration Commission. Regardless of the approving authority, all budget amendments recommended for approval must be placed on a seven workday notice period with the Legislature. If either the Senate President, the Speaker of the House, or the chair of the House or Senate Appropriations Committee objects in writing to the budget amendment as a violation of "legislative intent", the budget amendment is voided. If the Governor disagrees and states in his opinion that the "legislative intent" has not been violated, the Administration Commission must act. The Ad-

ministration Commission must affirm that the "legislative intent" has not been violated with 2/3 of the members present and the Governor voting in the affirmative.

19 As part of each agency's Original Approved Budget, OPB furnishes each budget entity an approved salary rate. Annual salary rate is defined as the amount of salary estimated to be paid a position or positions on an annualized basis. Annual salary rate is controlled by OPB at the budget entity level. During the fiscal year, budget entities may exceed their approved annual salary rate by five percent as long they are within their approved rate by the last day of the fiscal year.

20 All appropriations are the maximum amounts that a state agency may expend. However, if revenue collections are less than what was contemplated in the General Appropriations Act, the Administration Commission may reduce state agency budgets by a sufficient amount to prevent a fund deficit or it may authorize the use of the Working Capital Fund ("Rainy Day Fund").

21 Positions for state agencies are "fixed" in the General Appropriations Act. However, the Administration Commission may authorize the establishment of additional positions to implement federal grants or new federal regulations, correct errors in the Gen-

eral Appropriations Act, meet emergencies, or to reduce expenditures or increase revenues.

22 OPB and state agencies are prohibited from the impoundment of any appropriation except to avoid or eliminate a deficit. Generally appropriations can not be transferred between state agencies unless specifically authorized by law. In addition, appropriations can not be transferred between the four legal fund types (General Revenue Fund, Trust Funds, Working Capital Fund, and State Infrastructure Fund).

23 State agencies may transfer up to five per-

cent of each their Original Approved budget appropriations as follows: (a) between appropriation categories (i.e. line items in the General Appropriations Act) but within the same budget entity and (b) between budget entities but within the same appropriation category.

24 Only the Administration Commission may transfer state agency capital outlay budget appropriations. However, the transfer has to be limited to projects appropriated within the same fiscal year and fund type. No capital outlay budget project may be initiated without a specific legislative appropriation.

Findings (continued)
Executive Branch Budget Authority

The Florida Taxation and Budget Reform Commission recommends:

1 Each agency shall be required to submit its Legislative Budget Request and the five year capital improvement program to the Governor's Office of Planning and Budgeting by September 1 of each year. The agency Legislative Budget Request and the agency five year capital improvement program shall be based on the agency's independent judgment of its needs.

The Governor shall be authorized to add, delete or modify budget issues in the agency Legislative Budget Request for the agencies under the Governor's direct supervision.

2 The Governor's Office of Planning and Budgeting shall provide copies of the agency Legislative Budget Request and the agency five year capital improvement program to the Department of General Services within five days of receipt from the agency.

3 The Governor's Office of Planning and Budgeting shall provide copies of the agency Legislative Budget Request to the Information Resource Commission within five days of receipt from the agency.

4 The Governor's Office of Planning and Budgeting shall provide copies of the agency Legislative Budget Request and copies of the

Recommendations



FINDINGS & RECOMMENDATIONS

*Recommendations
(continued)
Executive Branch Budget
Authority*

Governor's Recommended Budget to the Legislature no later than December 31 or fifty days before the start of the regular legislative session for each year whichever date comes first.

5 *The form and content of the agency legislative budget, the agency capital improvements program, the Agency Functional Plan, and the Governor's Recommended Budget shall be determined by the Planning and Budgeting Instructions in lieu of statutes.*

6 *The Planning and Budgeting Instructions shall jointly be developed by the Governor's Office of Planning and Budgeting and the House and Senate Appropriations Committees no later than June 1. The instructions shall include a procedure for the development of a consensus current services budget.*

7 *The Governor shall be required to request agencies to develop a "target budget" within the existing revenues projected for the upcoming fiscal year and that the deadline for this "target budget" be September 15 of each year. The target budget shall require the agencies to prioritize their budget issues and would also include requests for multiple options for budget issues (i.e. 5% reduction from current spending levels, current spending level, 5% increase over the current spending level, and the like). The "target budget" shall be in addition to the budget based on the agency's independent judgment of its needs which shall be submitted to the Governor on September 1.*

8 *The Planning and Budgeting Instructions shall be changed to include a new issue type for budget issues to correct audit criticisms and/or recommendations.*

9 *The Planning and Budgeting Instructions shall be changed to include cost benefits and/or cost effectiveness analysis and long term investment analysis to be used in the justifications for budget issues.*

10 *The Governor shall be required to hold at least one public hearing on the agency Legislative Budget Requests and one public hearing on the Governor's Recommended Budget.*

11 *The "double budget" amounts in the General Appropriations Bill shall be identified and subtracted from the General Appropriations Bills totals by the budget system computer.*

12 *The Legislative Branch shall be required to submit its budget request according to the same process used by the Executive and the Judicial Branches. In addition, the Governor shall be given the authority to review and recommend revisions to the budget request for the Legislative Branch in the Governor's Recommended Budget according to same process used for the Executive and the Judicial Branches.*

13 *State agencies shall be allowed to be able to transfer up to 10% of their approved budget (appropriations, positions and salary rate)*

without the approval of OPB, the Administration Commission or the Legislature. The calculation for the 10% amount for appropriations, positions and salary rate shall be made at the department level and it shall include all funds. However, no transfers shall be made between the major fund types (i.e. General Revenue Fund, Trust Funds, State Infrastructure Fund, and the Working Capital Fund). All transfers shall be made within each major fund type. In addition, the calculation shall include all appropriation categories except for aid to local governments, fixed capital outlay and grants and aids to local governments and non-profit organizations.

14 The Administration Commission shall be allowed to delegate authority to the Governor's Office of Planning and Budgeting regarding the oversight and execution of state budgets.

15 The seven workday notice period for the Legislature to review changes to agencies' approved budgets shall be repealed. However, the Commission recommends that the current process of written objection procedure by the Senate President, the Speaker of the House, or the chair of the House or Senate Appropriations Committee that "legislative intent" has been violated shall be continued and that the Administration Commission shall continue to resolve issues of "legislative intent" with a affirmative vote of two-thirds of the members present and the Governor.

16 The state shall adopt a policy to implement generally accepted accounting principles (GAAP) into the budgeting process within 3 years. Until this approach can be implemented, a reconciliation methodology shall be developed by the Governor's Office of Planning and Budgeting (OPB), the Comptroller's office, and the Auditor General's office for the budgeting and appropriations process. The reconciliation process shall address agency accrual accounting data, Comptroller's cash accounting data, and the adjusted cash accounting data reported in the agency's Legislative Budget Request.

17 The state shall adopt a policy to fully implement all components of FFAMIS within 5 years. The Commission recommends that FFAMIS shall be provided the appropriate resources and dedicated staff to accomplish the intent of the 1980 FFAMIS law. This recommendation in no way mitigates the need for the State to develop a decision support system. Implicit in this approach shall be the notion that FFAMIS would be a key component of a decision support system for policy makers.

18 The state shall adopt a policy to require that all federal funds (revenues) received by the state be tracked in SAMAS and that a methodology shall be developed by OPB, the Comptroller's office, and the Auditor General's office to allow state agencies to identify "expenditures" of federal funds. In addition, the Commission recommends that the Governor's

Recommendations
(continued)
Executive Branch Budget
Authority

FINDINGS & RECOMMENDATIONS

*Recommendations
(continued)
Executive Branch Budget
Authority*

Office of Planning and Budgeting's Clearinghouse on federal grant proposals shall develop the capability to track the award and receipt of federal grants by state and local governments.

19 *State agencies, the Governor, and the Legislature shall include a "truth in budgeting" statement with all budget documents that will show in summary form all currently estimated fees, taxes, revenues or other income and which will also show in summary form a separate item for any additional fees, taxes, revenues or other income that will need to be raised to fund the proposed budget. In addition, the statement shall also show the annualized costs of the proposed budget.*

20 *State agencies which exceed their performance measures and which engage in best management practices shall be given more discretion in the execution of their budgets.*

21 *State agencies be allowed direct access from their computer terminals to LAS/PBS while it resides on the Legislative Data Center and that the Legislative Data Center make the appropriate changes to ensure that agency access to the LAS/PBS data files will not permit a breach in security regarding the data files maintained by the Legislature.*

22 *The Administration Commission be given the authority to establish and/or consolidate divisions of state agencies (Currently, only the Legislature may establish or delete divisions)."*

Annual Budgeting

The Florida Taxation and Budget Reform Commission finds:

1 Even though the current law states that Florida has a biennial budget process, in fact, Florida has an annual budget process.

The agencies are required by law to request a two year budget and to submit a five year plan for fixed capital outlay. In addition, the Governor is required to submit a two year budget recommendation to the Legislature. However, the Legislature only approves annual appropriations. The last time the Legislature approved a biennial appropriation was for the 1979-81 biennium.

In addition, the current law for the capital budget process requires a five year budget to be developed annually by the state agencies and the Governor but not by the Legislature. Consequently, the capital budget is also appropriated on an annual basis.

2 The advantages of a biennial budgeting process (i.e. additional time for legislative oversight and program evaluation by both the executive and legislative branches) have not been realized.

Because the Legislature has only been approving annual appropriations, the state agencies must update their second year of the biennium budget request and the Governor must update his second year of the biennium budget recommendations to reflect the impact of the first year of the biennium appropriations (i.e. annualizations of phased in programs, continuation costs of new or

improved programs, and the like). Consequently, both the state agencies and the Governor have to do essentially a completely "new" budget for the second year of the biennium.

Therefore, the current process, of biennial budgets but with only annual appropriations, causes the time and effort the state agencies and the Governor's Office must spend on the second year of the biennial budget to be doubled. In addition, since a completely "new" budget for the second year of the biennium is developed, state agencies and the Governor must explain to the members of the Legislature and the general public the components of the "new" budget and how it differs with the original request for the second year of the biennium.

Since the current process requires a budget developed by the state agencies and the Governor each year, there is little or no time available for the Executive or the Legislative Branches to perform program evaluations or oversight.

3 The General Appropriations Bill only reflects the costs for the upcoming fiscal period and therefore it is not a good reference for the amounts that will need to be spent during the next fiscal year even after adjustments have been made for inflation and population increases.

The General Appropriations Bill may contain programs which are phased in or are only effective for part of the fiscal year (i.e. pay raises effective for only six months of the fiscal year). In addition, the General Appropriations Bill contains one time expenditures,

Findings



FINDINGS & RECOMMENDATIONS

Findings (continued) Annual Budgeting

otherwise known as non-recurring expenditures.

federal fiscal year begin on October 1 and end on the next September 30.

4 The state fiscal year is not synchronized with the fiscal year used by local governments and the federal government.

The state fiscal year begins on July 1 and ends on the next June 30. The local government fiscal year and the

5 Florida's current planning and budgeting system calendar causes confusion.

Some of the state's planning processes are on a biennial cycle which precede the budgeting cycle. Others are on an annual cycle.

Recommendations

"The Florida Taxation and Budget Reform Commission recommends:

ready include a listing of the non-recurring costs).

1 The state shall adopt an annual budgeting process beginning October 1, 1991 and that the appropriate statutory changes to affect such a change be adopted by the 1991 Legislature.

2 State agency Legislative Budget Requests (LBRs), the Governor's Recommended Budget, and the General Appropriations Bill shall be accompanied by data in the Legislative Appropriations System/Planning and Budgeting System (LAS/PBS) computer which reflects the true annualized costs of the budget.

3 State agency LBRs shall be accompanied by data in the Legislative Appropriations System/Planning and Budgeting System (LAS/PBS) computer which reflects the non-recurring costs of the budget request (currently the Governor's Budget Recommendations and the General Appropriations Bill al-

4 The state fiscal year be changed to October 1 through September 30 so that it coincides with the fiscal year used by the federal government and local governments in Florida. The Legislature also shall provide a transitional quarter of funding to allow a smooth and non-disruptive change-over in the fiscal year period.

5 State planning processes shall be changed so that all planning documents and reports are produced annually and are available for use by policy makers in the development of the budget in order to ensure that Florida maintains its commitment to having an integrated planning and budgeting system. In addition, appropriate statutory changes to affect such changes in the planning processes shall be adopted by the 1991 Legislature.

Appropriations Review Process

The Florida Taxation and Budget Reform Commission finds:

1 Each year, the Conference Committee Report on the General Appropriations Bill contains appropriations which did not go through a rigorous review process that allows for the proper evaluation of the project's merit. The review pro-

cess includes: agency legislative budget request, Governor's Recommended Budget, and legislative committee hearings. In addition, appropriations sometimes appear in the Conference Committee Report on the General Appropriations Bill that did not appear in either the House or Senate version of the General Appropriations Bill.

Findings

The Florida Taxation and Budget Reform Commission recommends:

1 The Legislature shall require that each agency's budget request be reviewed by the appropriate subcommittee of the Appropriations Committee of each chamber. The review shall include a comparison of the major issues included in the agency's legislative budget request to those major issues included in the Governor's Recommended Budget for the agency. The review shall also include public testimony from the agency, the Auditor General's Office, the Office of Policy Analysis and Agency Review, the Governor's Office of Planning and Budgeting, and the general public regarding the proper level of funding for the agency in order to carry out its mission.

2 The Legislature shall require that the Agency Functional Plan for each agency shall be reviewed by the appropriate subcommittee

of the Appropriations Committee and the appropriate substantive committee of each chamber.

3 The Legislature shall require that the General Appropriations Bill shall include a line item display of each specific appropriation so they are available for veto by the Governor.

4 The Legislature shall require that all appropriation requests for grants to local governments, private organizations, and non-profit organizations shall be reviewed by appropriate subcommittee of the Appropriations Committee. Each appropriation request for grants to local governments, private organizations, and non-profit organizations shall have a fiscal note attached which will reflect the projected cost of operations and capital outlay of the project for the next five years. The fiscal note shall indicate the percentage of the projected costs of operations and capital outlay

Recommendations

FINDINGS & RECOMMENDATIONS

Recommendations
(continued)
Appropriations Review
Process

that is to be provided through state funds.

- 5** The Legislature shall require that appropriation requests for grants to local governments, private organizations, and non-profit organizations shall require local matching funds. The match should be based on the size and scope of the project and the applicant's ability to provide the match. In addition, the granting of state funds shall be used to encourage the establishment of community-based partnerships between the public and private sectors.
- 6** The Legislature shall require for all grant appropriations to private organizations and non-profit organizations that state agencies enter into a contract prior to the release of any state funds. The contract shall require that all appropriations which are to be advanced shall not exceed the expected cash needs of the recipient within the initial three months. In addition, the contract shall require that a financial and performance audit be performed on how the recipient utilized the grant funds.
- 7** The Legislature shall require the retention of interest earned on state funds or the amount of interest income may be applied against the state agency's obligation to pay the contracted amount.
- 8** The Legislature shall require the use of loans in lieu of grants to local governments, private organizations, and non-profit organizations whenever possible. The Legislature shall establish a revolving loan program where the loan amount plus interest is paid back by the recipient to the state.
- 9** The Legislature shall require that a budget for all appropriations be prepared by the proposed recipient. The budget shall detail the total amount of funds to be used for the project (state, local, other) and shall include an amount for administrative overhead and any lobbying fees.
- 10** The Legislature shall require that the private and non-profit organizations requesting the funding provide information regarding their organization including a copy of their current budget and board of directors.
- 11** The Legislature shall require that no appropriations shall be contained in the Conference Committee Report on Appropriations which have not already been included in either the House of Representatives' or Senate's General Appropriations Bill. Without such an "authorization", the appropriation shall be null and void and it shall be available for veto by the Governor.



General Appropriations Bill Format

The Florida Taxation and Budget Reform Commission finds:

1 Florida is one of the twenty states which utilizes one omnibus appropriations bill. Thirty states and the federal government utilize multiple appropriations bills.

2 Florida's General Appropriations Bill is divided into multiple sections.

Even though Florida utilizes one omnibus appropriations bill, it is broken into multiple sections. The Fiscal Year 1990-91 General Appropriations Bill contains 11 sections. However, only Section 1 and Section 2 contain line item appropriations. The printed totals for the appropriations and positions contained in the bill reflect only the amounts within Sections 1 and 2.

3 If an appropriation (dollars or positions) is contained in proviso language in Section 1-2 or contained in the text of Sections 3-11 it does not appear in the overall totals printed on the last page of the bill.

4 Section 1 of the General Appropriations Bill is used for the display of line item appropriations and their associated proviso language for operational expenditures. Section 1 also includes aid to local government and federal funds and their associated state matching funds.

5 Section 2 of the General Appropriations Bill is used

for the display of line item appropriations and their associated proviso language for fixed capital outlay (land, buildings, major renovations of real property, debt service, restoration of beaches, lakes, rivers, bays, and the like) expenditures.

Section 2 is broken into the following components:

Section	Title
2A	Department of General Services Managed Construction
2B	Agency Managed Construction
2C	Public Education Capital Outlay (PECO)
2D	Public Facilities Bonding Program
2E	Energy Grants
2F	Department of Transportation Work Program
2G	Grants and Aids to Local Governments and Non-Profit Organizations

6 The Commission has heard testimony that the use of a single appropriations bill causes the Appropriations Committee Chair and staff to have a disproportionate influence regarding which items are included in the budget.

The only bill the Legislature must pass each year during their regular session is the General Appropriations Bill. With an omnibus appropriations bill, the Legislature can not adjourn until all of the decisions for the entire state budget are made. Under the current arrangement, decisions regarding the level of funding for education and state employee pay raises are often not made until the last few days of the regular legislative session (and in some cases in

Findings

Findings (continued)
General Appropriations
Bill Format

an extended session). This results in the Legislature having to vote on the Conference Committee Report on the General Appropriations Bill a few hours before the session ends.

Multiple appropriation bills would allow the Legislature the capability to approve spending plans staggered throughout the session. The utilization of multiple appropriations bills (each with its own 72 hour "cooling off" period) would increase the ability of the members of the Legislature and the general public to analyze and comprehend the contents and implications of each of the proposed spending plans.

7 The Committee has heard testimony that the use of multiple appropriations bills could result in increased spending and that the total of all of the bills might exceed the available revenues.

8 In addition to the General Appropriations Bill, appropriations are often included in substantive bills. In the current fiscal year, there were at least 43 substantive bills which became law that contained appropriations totaling almost \$426 million dollars. Since these appropriations are contained in substantive bills, the Governor does not have "line item" veto authority over them.

Section 8 of Article III of the Florida Constitution states in part "in all cases except general appropriations bills, the veto shall extend to the entire bill." The governor may veto any specific appropriation in a general appropriations bill, but may not veto any qualification or restriction without also vetoing the appropriation to which it relates.

9 The Implementing Bill is the legislation which either temporarily amends current law or provides "implementing" or administering provisions for the General Appropriations Bill. The provisions of the bill become null and void at the end of the fiscal year.

The Implementing Bill came about as a result of court suits between the Executive and Legislative Branches regarding the Governor's veto power and the authority of the Legislature to control state agency activities through the use of proviso language in the General Appropriations Bill. The Florida Supreme Court has held that provisions of the General Appropriations Bill can not override substantive law and that the proviso language in the General Appropriations Bill must be logically related to the line item appropriation.

Therefore, items which used to be included in the General Appropriations Bill as proviso language and which can not meet the legal requirements as valid proviso language had to be adopted by the Legislature in legislation other than the General Appropriations Bill. Consequently, the Implementing Bill was created.

Generally, the Implementing Bill includes the legislative authorization for the state to sell bonds to finance such things as right-of-way land acquisition for the Department of Transportation or for dormitories for the State University System. In addition, the Implementing Bill may include other items that are "necessary" for state government to carry out its functions based on the funding provisions contained in the General Appropriations Bill. However, the Implementing Bill may also include other provisions which the Governor does not believe to be in the best interest of the state.

The Governor does not have a "line item" veto capability in regards to the Implementing Bill since it is considered a substantive bill and not the General Appropriations Bill. Consequently, the Governor is forced into a

Hobson's Choice (i.e. either veto the entire bill and call the Legislature into special session or allow the bill to become law even though there may be "objectionable" components within it) by the Legislature.

*Findings (continued)
General Appropriations
Bill Format*

The Florida Taxation and Budget Reform Commission recommends:

1 The state shall utilize a single appropriations bill. A separate section within the Appropriations Bill shall be used for the following major program areas:

- a. Education (Educational Enhancement "Lottery" Trust Fund Items Only);
- b. Education (All Other Funds);
- c. Human Services;
- d. Criminal Justice and Corrections;
- e. Natural Resources, Environment, Growth Management and Transportation;
- f. General Government; and
- g. Judicial Branch.

2 A separate break out within each section of the Appropriations Bill (see above) shall be used for each of the following types of expenditures:

- a. State Operations;
- b. State Capital Outlay;
- c. Aid to Local Governments and Non-Profit Organizations Operations;
- d. Aid to Local Governments and Non-Profit Organizations Capital Outlay;

- e. Federal Funds and the associated State Matching Funds;
- f. Spending Authorizations Operations (if necessary); and
- g. Spending Authorizations Capital Outlay (if necessary).

3 The appropriations and positions which appear in proviso language or text language shall be included in the totals for the General Appropriations Bill.

4 The Legislature shall adopt the appropriate Constitutional and statutory changes so that any substantive bill containing an appropriation shall be considered a General Appropriations Bill and thus subject to the Governor's line item veto power as to the appropriations element only.

5 The Legislature shall adopt the appropriate Constitutional and statutory changes so that any substantive bill containing language pertinent to the implementation of a General Appropriations Bill shall be subject to the Governor's line item veto power as to the appropriations element only.

Recommendations

General Appropriations Bill 72 Hour "Cooling Off" Period

Findings

The Florida Taxation and Budget Reform Commission finds:

1 In order to ensure the members of the Legislature and the general public are adequately informed about his proposed budget, the Governor is required to:

- a. hold at least one public hearing prior to the submission of his budget recommendations to the Legislature on the issues contained in the agency legislative budget requests and on issues which may be included in his budget recommendations to the Legislature;
- b. submit his budget recommendations to each member of the Legislature no later than 45 days before the start of the regular annual session;
- c. electronically transmit to the Legislative Appropriations Committees a copy of the computer files (Exhibit B, Exhibit D-3A, and the Major Issues) that contain a copy of his recommended budget no later than 45 days before the start of the regular annual session; and
- d. submit budget workpapers and supporting legislation necessary to implement his proposed budget, including a proposed General Appropriations Bill, to the Legislature no later than 14 days after the release of the Governor's budget recommendations.

2 The major budget work of each chamber of the Legislature is conducted in the Appropriations Committee.

The Appropriations Committees hold open public meetings at which representatives from the state agencies, Office of Planning and Budgeting, and advocacy groups testify regarding their recommendations on how the Legislature should set the spending priorities for the upcoming fiscal year.

3 Both chambers develop their own version of the General Appropriations Bill.

4 A Conference Committee is used to resolve the differences between the two chambers' General Appropriations Bills.

The Conference Committee also holds open public meetings at which the members decide the spending priorities for the upcoming fiscal year.

5 The Conference Committee is only supposed to develop a General Appropriations Bill based on budget items that were in either the House or Senate General Appropriations Bill.

No new budget items are to be added during the deliberations. However, this is sometimes not the case in actual practice.

6 The Conference Committee issues a Conference Report on the General Appropriations Bill which must be approved by both chambers without any amendments.

7 Upon passage by both houses of the Legislature and signed by the presiding officers, the Conference Report on the General Appropriations Bill, is sent to the Governor for action (approval except as noted by line item veto).

8 In addition to the Conference Report on the General Appropriations Bill, the Legislature also produces the Summary Statement of Intent which shows a side by side comparison of the Major Issues in the Governor's Recommended Budget or the agencies' legislative budget request and the Conference Report.

The Statement of Intent may also include information to provide additional explanation relative to the purpose, objectives, or spending philosophy of specific appropriations. The Statement of Intent is not law and therefore it is not supposed to allocate or appropriate any funds or amend or correct any provision in the Conference Report. The Statement of Intent also includes the computerized legislative analyst workpapers (Exhibit B, Exhibit D-3A, and the Major Issues).

Current law requires that this data (Summary Statement of Intent and the computerized workpapers) be given to the Governor no later than five days before the end of the period allowed by law for veto consideration. Consequently, this information is often not completely compiled until after the time the Conference Report is voted on by the Legislature. (Working under less stringent time constraints, the Governor is required to provide this type of data to the Legislative Appropriations Committees the same day the recommended budget is

transmitted to the members of the Legislature.)

9 The current practice used by the Legislature for adoption of the Conference Committee Report on the General Appropriations Bill often does not provide enough time for the members of the Legislature and the general public to understand the contents and implications of the proposed state budget.

In recent years, the vote on the Conference Committee Report on the General Appropriations Bill has been in the waning hours on the last day of the regular legislative session (and in some cases in an extended session). The members of the Legislature and the general public have only a few hours to review and analyze the contents of the bill before the vote is held. The review process by the members of the Legislature and the general public is further complicated by the fact that generally copies of the bill are scarce.

10 Even though every bill that passes the Legislature is required to be presented to the Governor for approval, there is no constitutional or statutory process which states how long a bill can be held by the Legislature before it is sent to the Governor for his approval nor how many bills can be sent to the Governor for his approval at one time.

If the Legislature so desired, the Conference Report on the General Appropriations Bill could be held by the Legislature until June 30 and then sent to the Governor for approval. Such a scenario would make a mockery of the Governor's line item veto authority because the new fiscal

*Findings (continued)
72-Hour "Cooling Off"
Period*

FINDINGS & RECOMMENDATIONS

Findings (continued) **72-Hour "Cooling Off" Period**

year begins the next day. The Governor's ability to do a thorough analysis of the bill would be severely strained since the state would be prohibited from spending any money until the Governor approved the bill (except as noted with his line item vetoes) and there would be pressure on the Governor to approve the bill as quickly as possible so the state could get on with its daily business.

11 The Commission has heard testimony from various individuals, including Representative Art Simon, that there should be a minimum of a 48 to 72 hour period in which the Conference Committee Report on the General Appropriations Bill should be available to the members of the Legislature and the general public.

This "cooling off" period would provide the opportunity for the members of the Legislature and the general public to read and understand the proposed budget for the state. In addition, it will allow time for the members of the Legislature to develop

an informed opinion regarding the merits of the revenue and expenditure policies contained in the Conference Committee Report on the General Appropriations Bill. Armed with this information, the members of the Legislature will be able to vote more intelligently on the bill.

12 There is no final published document available to the members of the Legislature or the general public which reflects the "final budget" which is net of vetoes and which includes any appropriations contained in substantive bills.

Currently the only document that reflects this information is the Approved Operating Budget which the Office of Planning and Budgeting develops. However, this report is really only the Appropriations Ledger and the Position and Rate Control Ledger which are computer reports designed for budget analysts and accountants. These reports do not reflect the line item in the General Appropriations Act nor do they reflect any historical data on expenditures or program measures.

Recommendations

The Florida Taxation and Budget Reform Commission recommends:

1 *The Florida Constitution shall be changed to require the Conference Report on the General Appropriations Bill be made available to the members of the Legislature and the general public at least 72 hours before it can be voted on by either house of the Legislature.*

2 *The format of the House of Representatives General Appropriations Bill, the Senate General Appropriations Bill, and the Conference Report on the General Appropriations Bill shall be altered to allow for the inclusion of the Major Issues from the Summary Statement of Intent and to also include all other documents and/or workpapers that will be used to determine "legislative intent" as*

separate sections within these Appropriations Bills.

3 The Florida Statutes shall be changed to require the Office of Planning and Budgeting to develop a "final" budget document that reflects the net appropriations for each budget item. This report would reflect the two prior fiscal years actual expenditures and the current fiscal year estimated expenditures. In addition, the report would contain the actual and estimated revenues and cash balances for the two prior fiscal years and the current fiscal year. Finally, the report would contain for each state agency program: (1) expenditure data, (2) agency program objectives, and (3) program measures. This report

would be produced by the 90th day of the fiscal year. Copies of the report would be available to each member of the Legislature, the head of each state agency, the Auditor General, and the general public.

4 The Florida Statutes shall be changed to require the General Appropriations Bill to be presented to the Governor no more than 72 hours after it has been adopted by the Legislature.

5 The the Florida Statutes shall be changed to require that no more than 50 bills may be presented to the Governor for his approval in a 24 hour period.

*Recommendations
(continued)
71-Hour "Cooling Off"
Period*

Abolition of Selected Trust Funds

Findings

The Florida Taxation and Budget Reform Commission finds:

1 Over 50% of the Fiscal Year 1990-91 Approved Budget for state agencies is from trust funds.

A recent review of the Fiscal Year 1990-91 Approved Budget revealed (after adjusting for the budget reductions approved by the Administration Commission on October 9, 1990) the following information by fund (in millions):

- a. General Revenue Fund - \$10,800.44 or 38.26% of the total budget;
- b. Working Capital Fund - \$4.85 or .02% of the total budget;
- c. State Infrastructure Fund - \$507.84 or 1.80% of the total budget;
- d. Educational Enhancement Trust Fund (Lottery) - \$1,006.63 or 3.56% of the total budget;
- e. Trust Funds - \$15,906.66 or 56.35% of the total budget;
- f. Total All Funds - \$28,226.43.

2 In the last ten years the percentage of trust fund appropriations have increased from 48% to 56% of the state budget and the percentage of the General Revenue Fund appropriations have decreased from 52% to 38% of the state budget.

3 The percentage of trust fund appropriations increased in spite of the fact that from 1985 through 1989 there was a sunset review process by the Legislature.

The 1984 Legislature enacted Section 215.3205, Florida Statutes, which established a procedure for a scheduled review and abolition of trust funds in the State Treasury except for those specifically exempted from abolition.

Some trust funds were abolished as a result of this legislation. However, most of the trust funds abolished were either inactive or had very little activity in regards to expenditures or revenues collected.

4 The law concerning the legislative review of trust funds and the abolition of trust funds was repealed on October 1, 1989.

5 Some of the problems associated with the previous legislative review and trust fund abolition legislation were:

- a. No state agency was given the responsibility to ensure that the trust funds were actually abolished and the funds disposed of the way the Legislature intended.
- b. The review process by the Legislature was oriented towards a fiscal perspective as opposed to a policy review as to whether the rationale for maintaining the trust fund with earmarked revenue was still appropriate.
- c. The schedule for sunset review did not contemplate any examination of new trust funds established after the review period for the agency.

6 Under Generally Accepted Accounting Principles (GAAP), the general fund of a

governmental unit serves as the primary reporting vehicle for government operations. The general fund, by definition, accounts for all current financial resources not required by law to be accounted for in another fund.

The general fund could be used to account for all government activity and normally should be used to account for all general government functions. Of course, many governments still rely heavily on fund accounting. Fund accounting dates back to a time before formal governmental accounting standards were established. It performs as a control device to segregate financial resources and to ensure that the segregated resources are used only for their intended purposes. With the advent of sophisticated accounting systems, the reliance on fund accounting as a primary method of control has diminished. In fact, Florida's local governments are required to use Generally Accepted Accounting Principles.

Trust funds, within generally accepted accounting principles, are used to account for assets held by a government in a trustee or agent capacity for others. It is a fiduciary relationship.

In most instances, the use of trust funds should be limited to formal legal trusts. Trust fund spending is controlled primarily through legal trust agreements and applicable state laws. Legally adopted budgets and formal budgetary integration are not usually required for trust funds. When statutes require the adoption of an annual appropriation, it is most appropriate to use either the general fund or a special revenue fund for the purpose.

Governments often will classify activities as trust funds when they should more appropriately be in the general fund or in a special revenue fund. If a government faces legal requirements restricting specific funding resources to expenditures for specified purposes, a special revenue fund may be used. However, it is usually possible to accommodate legal restrictions and sound financial management practices without classifying the revenue or activity within the special revenue fund. Earmarked revenues can properly serve designated purposes and be placed with the general fund as segregated accounts. The investments associated within segregated accounts can be treated similarly.

Findings (continued) Abolition of Selected Trust Funds

The Florida Taxation and Budget Reform Commission recommends:

1 *The state shall adopt a policy to provide a means for periodic review and control of cash balances and income held by state agencies in funds other than the General Revenue Fund.*

2 *Selected trust funds not meeting the criteria in the following paragraph shall be abolished on October 1, 1991. Unless otherwise provided by law, all cash balances and other income of the trust funds shall be deposited into the General Revenue Fund. For the purpose of this proposal, trust fund*

Recommendations

FINDINGS & RECOMMENDATIONS

Recommendations (continued) Abolition of Selected Trust Funds

means each separate cash control maintained in the State Treasury. The Comptroller and Treasurer shall be directed to ensure that the cash balances and other income of the abolished trust funds are distributed to the proper fund and/or segregated accounts within the General Revenue Fund and that the abolished trust funds are deleted from the state chart of accounts.

The following trust funds would not be abolished:

- a. Those trust funds created by the State Constitution;
- b. Those trust funds that are required because of federal programs or mandates;
- c. Those trust funds that were established for bond covenants, indentures or resolutions and those trust funds whose revenues were legally pledged by the state or public body to meet debt service or other financial requirements of any debt obligations of the state or any public body;
- d. The Educational Enhancement Trust Fund;
- e. The Florida Retirement Trust Funds;
- f. Those trust funds which serve as clearing funds or accounts for the Comptroller, the Department of Revenue, or other state agencies;
- g. Those trust funds which account for assets held by the State in a trustee capacity as an agent or fiduciary for individuals, private organizations, or other governmental units; and
- h. The State Transportation Trust Fund.

3 All new trust funds established after October 1, 1991, either by the Legislature through statute or by inclusion in the General Appropriations Bill shall be extinguished no later than October 1 of the fourth fiscal year of the trust fund's existence and the Legislature should not re-enact such trust fund.

4 All cash balances and income of new trust funds established after October 1, 1991 shall always be available for appropriation by the Administration Commission and/or the Legislature when in the best interest of the state and for the general welfare of the citizenry.

5 Any state program or activity that was in existence as of October 1, 1991 shall not be shifted to a new trust fund. The use of new trust funds for financing state or local government programs or activities shall be limited to new programs or enhancements to existing programs.

"New programs" mean services, functions or activities which are not currently being provided and which are not part of any program in existence.

"Enhancements" mean changes to a current program or activity which will render a more economical and/or higher quality service, function or activity; or to significantly expand the quantity and quality of services.

6 The State Comptroller's Office shall modify the State's accounting system (SAMAS) to allow for the use of segregated accounts within the

General Revenue Fund. These segregated accounts shall be eligible to receive earmarked revenues, including fees, licenses and fines where appropriate. These revenues shall be retained for their earmarked purposes.

7 *Appropriate statutory changes shall be made to allow the Executive Office of the Governor the authority to approve changes in the*

amounts appropriated from the segregated accounts within the General Revenue Fund in excess of those in the approved operating budget pursuant to the receipt of federal funds or when grants and donations are received after the General Appropriations Bill has been passed by the Legislature or when deemed to be in the best interest of the state due to an emergency situation.

*Recommendations
(continued)
Abolition of Selected
Trust Funds*



The Working Capital "Rainy Day" Fund

Findings

The Florida Taxation and Budget Reform Commission finds:

1 Florida is one of 38 states that has a "Rainy Day" or Budget Stabilization Fund.

According to the December 1989 survey conducted by the National Association of State Budget Officers (NASBO) 38 states have a budget stabilization or "rainy day" fund. However, the various states all differ regarding the size, use and procedure for expenditure from these funds.

2 Florida needs to have available approximately \$30 million each day of the fiscal year to pay for the General Revenue Fund expenditures.

If Florida's General Revenue Fund budget of \$10.8 billion was evenly dispersed during the fiscal year, approximately \$29.6 million would be necessary to carry on the day to day expenditures. Therefore, the recent practice of maintaining a Working Capital Fund balance of approximately \$150 million would pay for 5 days of Florida's General Revenue expenditures.

3 By law, Florida's Working Capital Fund balance has a "cap" but it has no "floor."

Florida's Working Capital Fund balance is limited to no more than 10% of the previous fiscal year's net revenue collections in the General Revenue Fund. However, there is no limit on how low the Working Capital Fund balance can be.

4 The National Conference of State Legislators (NCSL) has recommended that states hold at

least 5% of their budget in reserve as a "rainy day fund" or "budget stabilization fund."

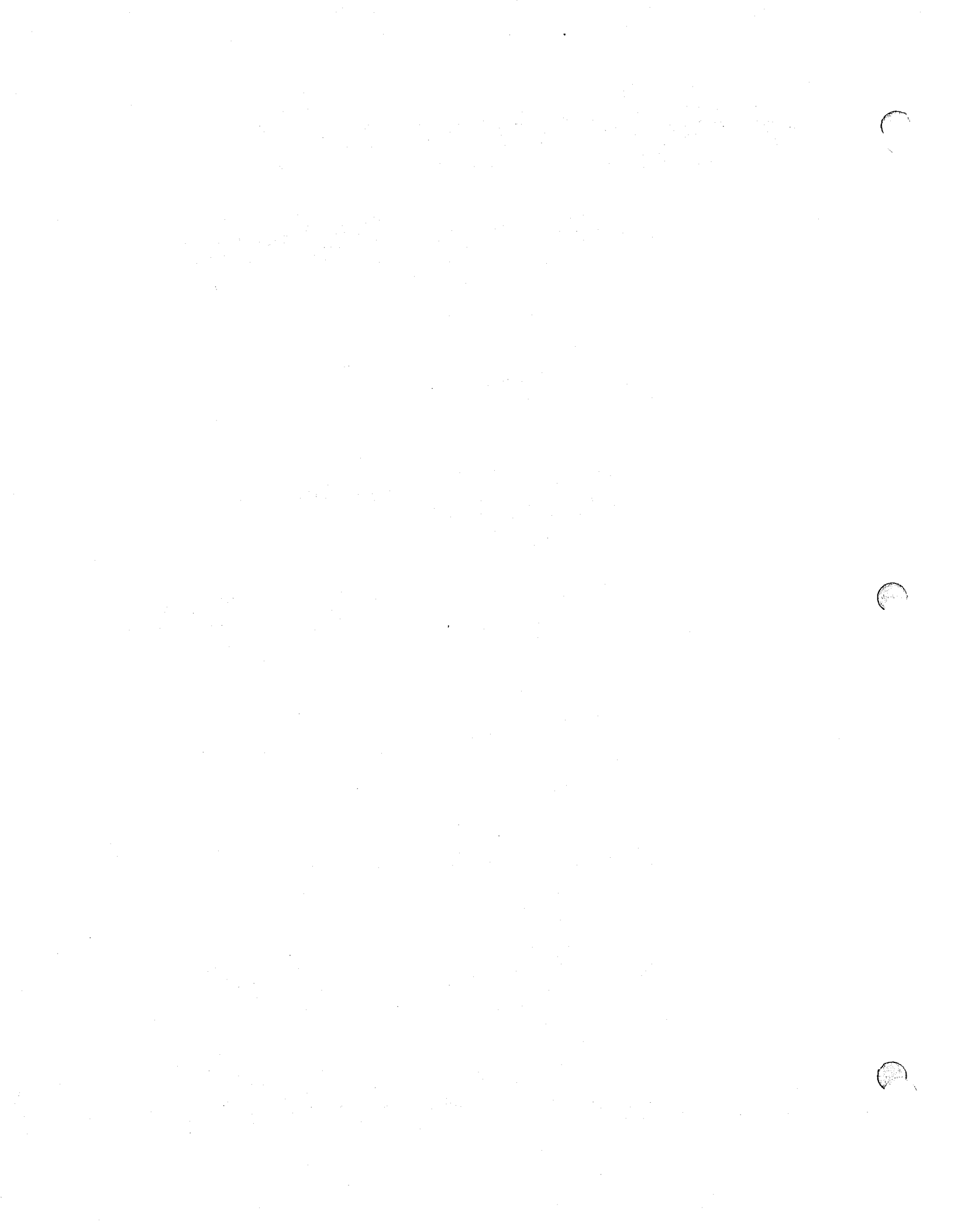
Some critics have stated that the Working Capital Fund should have a "floor" of either at least \$500 million or 5% of the previous fiscal year's net revenue collections in the General Revenue Fund (5% of last fiscal year's net revenue collections for General Revenue Fund would be approximately \$487.8 million). However, an economist at the University of Central Florida has studied the state of Florida's finances and concluded that a 2.5% Working Capital Fund balance is the proper level based on his analysis of the data.

5 Under the current law, there is no established process for a dedicated revenue source or amount to be deposited into the Working Capital Fund.

The primary revenue sources for the Working Capital Fund are the moneys associated with General Revenue Fund vetoes and unspent appropriations from the General Revenue Fund which by law revert to the Working Capital Fund.

Some critics have suggested that there should be constitutional limits on not only the revenues to be deposited into the Working Capital Fund but also on the expenditures from the Working Capital Fund. Currently, the existence of the Working Capital Fund is not even acknowledged by Florida's Constitution. The only references to the Working Capital Fund are statutory.

6 Section 9 of the current fiscal year General Appropriations Act requires the trans-



fer of the moneys associated with vetoed appropriations from the State Infrastructure Fund to the Working Capital Fund.

This provision along with the rest of the General Appropriation Act will expire on June 30, 1991.

7 The Working Capital Fund serves as a source of moneys for the following activities:

- a. Appropriations by the Legislature.
- b. Transfers to the General Revenue Fund if the Legislature appropriates more than the revenues which are available in the General Revenue Fund.
- c. Transfers to the General Revenue Fund to help mitigate the effects of a revenue shortfall in the General Revenue Fund. The Administration Commission (Governor and Cabinet) could vote to utilize the entire Working Capital Fund balance for this purpose.
- d. Temporary loans to other funds within the State Treasury provided that the loan is repaid by the end of the fiscal year.
- e. Payment of claims from the state's self-insurance program.
- f. To pay for a declaration of a "state of emergencies" caused by nature or man as declared pursuant to Chapter 252, Florida Statutes.

8 The Working Capital Fund does not serve as a source of moneys for the following activities:

- a. Deficiency appropriation to help offset program funding deficits.
- b. Transfers to a trust fund to help mitigate the effects of a revenue shortfall in the fund.

9 Current law prohibits the Governor or any agency from impounding funds except to mitigate the effects of a revenue shortfall in the General Revenue Fund.

Prior to 1969, the state budget office was authorized to hold up to 5% of an agency's budget in reserve in order to provide a funding mechanism for possible emergencies, program deficits, and revenue shortfalls.

10 Florida's AA bond rating could be helped by having a larger Working Capital Fund balance.

Whenever the Working Capital Fund balance is less than \$200 million, budget reductions are almost a given when the state experiences a shortfall in revenue collections. As a rule of thumb it is unwise to have a Working Capital Fund balance that falls below a \$100 million due to the effect on the state's bond rating for "full faith and credit" bonds.

*Findings (continued)
Working Capital
"Rainy Day" Fund*

The Florida Taxation and Budget Reform Commission recommends:

1 Changes shall be made to the Florida Statutes to clearly: (1) establish the process for the flow of revenues into the Working Capital Fund, (2) establish the process for the use of

the Working Capital Fund, and (3) articulate the intent or purpose of the Working Capital Fund.

2 Changes shall be made to the Florida Statutes to require that by the last day of the 1992-93 fiscal year an amount

Recommendations

*Recommendations
(continued)
Working Capital
"Rainy Day" Fund*

equal to at least 5% of the previous fiscal year's net revenue collections for the General Revenue Fund be available in the Working Capital Fund and that the Working Capital Fund balance continue to be limited to no more than 10% of the previous fiscal year's net revenue collections in the General Revenue Fund.

Changes also shall be made to the Florida Statutes to require that beginning with the 1993-94 fiscal year at least 5% of the previous fiscal year's net revenue collections for the General Revenue Fund be maintained in the Working Capital Fund and that the Working Capital Fund balance continue to be limited to no more than 10% of the previous fiscal year's net revenue collections in the General Revenue Fund.

Additionally, changes shall be made to the Florida Statutes to require that the funds available in the Working Capital Fund could only be used to: (a) help mitigate revenue shortfalls pursuant to the provisions of Section 216.221(2), Florida Statutes and (b) provide a funding source for "emergencies" as defined in Section 252.34 (2), Florida Statutes.

"Emergency" means any occurrence, or threat thereof, whether accidental, natural, or caused by man, in war or in peace, which results or may result in substantial injury or harm to the population or substantial damage to or loss of property.

3 Changes shall be made to the Florida Statutes to require that the moneys associated with the vetoes from the State Infrastructure Fund shall be transferred to the Working Capital Fund.

4 Changes shall be made to the Florida Statutes to establish a procedure in which the Working Capital Fund could only be used to cover up to 50% of an estimated revenue shortfall for the General Revenue Fund in cases when the revenue shortfall exceeds 1% of the estimated revenues upon which the General Appropriations Act was based. The other 50% would have to come from recurring budget reductions or recurring fund shifts.

In cases when the revenue shortfall is less than 1% of the estimated revenues upon which the General Appropriations Act was based, the Administration Commission would be authorized to use the Working Capital Fund for the entire amount of the shortfall.

5 If the Working Capital Fund is to ever be used to help offset program deficits in addition to revenue shortfalls, the Florida Statutes shall be revised accordingly to allow for all funds in the State Treasury to contribute to the Working Capital Fund by having at least 5% of the previous fiscal year's net revenue collections for all funds be maintained in the Working Capital Fund and that the Working Capital Fund balance be limited to no more than 10% of the previous fiscal year's net revenue collections for all funds in the State Treasury.

Quality Management and Accountability

The Florida Taxation and Budget Reform Commission finds:

PERFORMANCE MEASUREMENT

- 1** The Governor, Cabinet, and Legislature should have an empirical basis by which to assess how government is responding to major issues and on which to inform the public of its performance.
- 2** Agency heads should provide empirically based information in response to requests from the Governor, Cabinet, and Legislature on how well their policies, programs, and services are being carried out.
- 3** Top managers need empirical information in order to evaluate the productivity of subordinate managers, employees, and available technology in order to help prioritize functions and the use of resources.
- 4** A performance and productivity measurement system should be an integral part of the budget process in order to provide a means of tracking the state budget expenditures in order to show how taxpayer resources are being spent.
- 5** A performance and productivity measurement system can be used to evaluate selected statutes, major policies, and management initiatives.

Findings

- 6** A performance and productivity measurement system can help guide implementation of the State Comprehensive Plan and Agency Functional Plans by providing incentives and consequences for performance.
- 7** A performance and productivity measurement system can help pinpoint where there are gaps in manpower and resources versus workload, thereby increasing the empirical basis and credibility of requesting new resources.
- 8** A performance and productivity measurement system can enable work units and employees to see how their efforts contribute to the successful accomplishment of the agency's overall mission, goals, and objectives.
- 9** A performance and productivity measurement system would provide an empirical basis for recognizing work unit and employee achievements and contributions.
- 10** A performance and productivity measurement system would contribute to increased public confidence in government.
- 11** There is a need for continuous improvement in the delivery of state government services and products.

*Findings (continued)
Quality Management
& Accountability*

12 State agencies should establish a goal to increase their productivity by as much as, perhaps three percent, annually.

**PRODUCTIVITY
IMPROVEMENT**

13 There is a public perception that government is not efficient.

At the national level, polls done since 1968 reveal that over 60% of the people agreed that "a lot" of money paid in taxes is wasted by government. The Florida International University poll of 1989 found in its poll of 1201 persons, 43.5% said that state and local governments waste "a lot" of money and 46.5% said "some" money is wasted.

14 State employee salaries are lower than many other southern states and lower than local government employees in Florida.

The Pay Plan Study by the Department of Administration in 1989 showed that the average state salary in the Southeast was \$19,408, while Florida's employees earned \$18,792, which placed them seventh among the southeastern states in 1987-1988. The same survey showed the average Florida local government salary to be 11.55% higher than the average state salary.

15 State employee turnover is very high.

The 1989 Pay Plan Study by DOA revealed that the turnover rate for 1988 was 10.64% and in 1989 it rose to 11.34%. According to DOA this is much higher than what the private sector considers an acceptable rate.

The 1989 Federal Systems Protection Board study of turnover in the federal government found 9% in 1987. Corporations recognize that high turnover can cut deeply into the operating budget and profits because they estimate that recruitment and training costs range from \$5,000 to \$18,000, depending on the position. The estimate by the Congressional Budget Office of cost for federal employees is \$1,200.

16 Compensation has been shown to be a significant factor in employees morale. Many state employees are stuck at the bottom of their pay range, pay increases in recent years have been low (3% in 1990-1991), and merit increases have not been funded since 1988.

17 The private sector has found that cash incentives such as bonuses or profit sharing can motivate employees to be more productive.

A recent estimate in Public Productivity and Management Review was that at least 20% of American manufacturing and service businesses use some type of financial incentives.

18 The Legislature has prohibited awarding of lump-sum bonuses.

Lump-sum bonuses are prohibited by s. 216.181 F. S. unless specifically appropriated by the Legislature. Section 1.1 of Chapter 90.209 says: "The Department of Administration shall not authorize any agency head to approve lump sum bonus payments to employees for purposes of incentive rewards for performance or productivity improvement programs unless otherwise provided herein."

19 Greater efficiency and productivity in government may be promoted by offering monetary incentives.

20 A variation of the Productivity Enhancement Program was implemented successfully in the Governor's Office of Planning and Budgeting in 1987.

21 The public interest is served by having state employees curb questionable or unnecessary state spending.

22 If a state agency does not spend the full amount of its appropriations, the surplus reverts to the state budget at the end of the fiscal year.

23 Current budgeting practices have few incentives to encourage agencies to spend less than the full amount of their appropriations.

24 In some cases funds have been spent in the fourth fiscal quarter for questionable needs, such as extra supplies, computers, furniture, travel, etc., rather than have left-over funds in the budget at year's end.

A review of budget and spending practices of state agencies by Florida TaxWatch, Inc., found that the practice does exist, but it is difficult to document the extent of the problem.

25 The creation of incentives may encourage employees to seek additional ways to save budgeted funds.

*Findings (continued)
Quality Management
& Accountability*

The Florida Taxation and Budget Reform Commission recommends:

PERFORMANCE MEASUREMENT

1 The Administration Commission shall be required to adopt performance measures as part of the original approved budget for each state agency. The performance measures shall include at a minimum the performance measures from the agency's Agency Functional Plan (AFP).

2 Each agency as part of their AFP shall adopt an annual

productivity plan with standards and measures which shall assess the quality and cost-effectiveness of the agency's operations and measure those factors that are reasonably within the agency's control.

3 The internal auditor of the agency shall review the agencies' draft standards and measures and report any recommendation for modifications to the Administration Commission, together with recommendations concerning actions to be taken in the event an agency fails to meet the standards and measures developed and

Recommendations

*Recommendations
(continued)
Quality Management
& Accountability*

adopted pursuant to this proposal.

4 Chapter 216, Florida Statutes, shall be amended to make performance and productivity measures an integral part of the state budgeting process.

5 Chapter 216, Florida Statutes shall be amended to require that the Governor provide to the legislature and the public, as part of his budget recommendations, a productivity report evaluating each state agency's performance during the preceding fiscal year against legislatively adopted standards and measures relating to the State Comprehensive Plan, Agency Functional Plans, and major goals, responsibilities, and functions of each agency.

6 The Governor's productivity report shall contain a data and narrative explanation of each agency's performance and productivity for the preceding fiscal year, based upon uniform program evaluation criteria.

**PRODUCTIVITY
IMPROVEMENT**

7 Each agency shall establish as part of its Annual Productivity Plan a program that shall include, but not be limited to, the following:

- a. A set of productivity and quality goals and objectives;
- b. Productivity and quality standards and measures relating to agency goals and programs;

- c. A measurement system to hold managers and employees accountable for measurable agency and program outcomes;
- d. Managers and employees jointly developing and implementing productivity and quality improvement efforts;
- e. Rewards, sanctions and recognition based on productivity and quality;
- f. Mandatory training for all employees in methods for improving productivity and quality; and
- g. Means of using of technology in improving agency operations and services.

8 Changes shall be made to the Florida Statutes to authorize the implementation of the Productivity Enhancement Program.

- a. The Department of Administration shall be directed to prepare guidelines and rules for implementing the Productivity Enhancement Program at the earliest date possible. The process by which guidelines and rules are developed shall include joint participation by managers and employees.
- b. The Taxation and Budget Reform Commission recommends to the Governor and Legislature that the Productivity Enhancement Program shall be implemented in the following manner:
 - 1) Vacant, funded positions within a section or organizational unit of a state agency shall be deleted if employees and managers voluntarily agree to participate in the Productivity Enhancement Program.
 - 2) Managers and employees shall jointly develop a plan by which the workload of the deleted positions



would be reallocated to the remaining employees within the unit.

- 3) One-half of the salary and benefits (less health insurance) of the deleted positions shall be reallocated to the remaining employees and managers within the unit who have assumed the increased workload. The salary payments could be in the form of a uniform percentage increase or on a per capita basis.
- 4) One-fourth of the salary and benefits (less health insurance) of the deleted positions shall be used to purchase productivity enhancing technology, such as computers, software, copy machines, automated filing systems, etc. This shall be a non-recurring expenditure which improves productivity and is approved by the Information Resource Commission.
- 5) The remaining one-fourth of the salary and benefits, plus the full cost of health insurance, of the deleted positions shall revert to the state.
- 6) In order to be approved by the agency head, the plan shall include an accurate measurement of workload within the participating unit to provide a "base level" of work for comparison purposes. The plan shall also prohibit the use of overtime to accomplish the normal workload and the shifting of work or responsibilities to other sections or units. Periodic performance evaluations shall be made to make certain work was being performed at a satisfactory level.
- 7) The Taxation and Budget Reform Commission acknowledges that some modification of the distribution formula (50%-25%-25%) could be made without jeopardizing the merit of the program.
- 8) The pay which is reallocated to the employees and managers who assume the workload of the deleted positions shall not become a part of the base salary; however, the pay may not be revoked unless the plan is abandoned because work is not being performed satisfactorily,

services are not provided satisfactorily, or the workload is redistributed.

- c. **The Taxation and Budget Reform Commission recommends to the Governor that he shall direct the Department of Administration to prepare informational materials to explain the program to state employees and that these materials be broadly distributed to all employees.**
- d. **The Taxation and Budget Reform Commission recommends to the Governor and Cabinet that they shall encourage agency heads to determine, with employee participation, the applicability of the Productivity Enhancement Program for units or sections within their agencies. It may not have universal application, but where it can be applied, more than 50% of the savings from the deleted positions could accrue to the state after the first year.**

9 Changes shall be made in Florida Statutes to create and implement the Productivity Bonus Program as described in items below and to rename the State Meritorious Service Awards Program to the Productivity Bonus Program.

- a. **The Productivity Bonus Program shall be implemented in the following manner:**
 - 1) **The Productivity Bonus Program shall reward employees who develop cost-effective methods for the provision of services and the operations of state government.**
 - 2) **All state employees shall be eligible. Realized savings shall be rewarded to an individual or group of**

*Recommendations
(continued)
Quality Management
& Accountability*

FINDINGS & RECOMMENDATIONS

Recommendations

(continued)

Quality Management & Accountability

individuals for specific recommendations.

- 3) Savings shall be recurring and realized within two years.
 - 4) The reward for the savings recommendation shall be paid in the form of a bonus and not included in the employee's annual base salary.
 - 5) The bonus paid shall equal 5% of the second year recurring savings (to a maximum of \$25,000), net of any new investment costs of implementation.
 - 6) Savings recommendations shall go through an adequate approval/verification process which shall be developed as a part of the rule-making process.
- b. **The Department of Administration shall be directed to prepare rules to implement the Productivity Bonus Program. The process by which the rules are developed shall include joint participation by managers and employees.**
- c. **The Governor shall direct the Department of Administration to prepare informational materials to explain the Productivity Bonus Program and that the information shall be distributed to all state employees.**
- 10** **Changes shall be made to the Florida Statutes to authorize the Reversion Reprogramming and Recovery Reward Program.**
- a. **The Reversion Reprogramming and Recovery Reward**

Program shall include the items described below:

- 1) Only certain appropriation categories shall be eligible for the Reversion Reprogramming and Recovery Reward Program: Expenses, Other Personal Services (OPS), Operating Capital Outlay (OCO), and Special Categories.
 - 2) Eighty percent of the eligible unobligated appropriations at the end of the fiscal year shall revert to the fund from which it was appropriated.
 - 3) Twenty percent of the eligible unobligated appropriations at the end of the fiscal year shall be made available to the agencies through the Reversion Reprogramming and Recovery Reward Program as non-recurring salary bonuses for state employees and for purchases of productivity enhancing technology.
 - 4) All rewards shall be paid in the form of a "bonus" and not included in employees' annual base salary.
 - 5) All state employees shall be eligible.
- b. **The Department of Administration shall prepare rules for the implementation of the Reversion Reprogramming and Recovery Reward Program. The process by which rules are developed shall include joint participation by managers and employees.**
- c. **The Department of Administration shall prepare informational materials about the Reversion Reprogramming and Recovery Reward Program for distribution to all state employees.**

Implement the Office of Policy Analysis and Agency Review (PAAR)

"The Florida Taxation and Budget Reform Commission recommends:

in lieu of appropriations from the Agency Budget Sunset Trust Fund.

Recommendations

- 1 The Florida Taxation and Budget Reform Commission commends the Legislature for passing the Agency Budget Sunset Act as an innovative means of increasing the Legislative oversight of existing programs and developing the policy alternatives needed by the Legislature in matters of complex policy formulation. The act provides that state agencies will be subject to agency evaluation and justification review every 7 to 15 years and creates the Office of Policy Analysis and Agency Review (PAAR) to conduct these policy analyses and agency evaluation and justification reviews.
- 2 The Governor and Legislature shall take the appropriate actions to implement the Agency Budget Sunset Act as soon as possible and consider the transfer of a portion of the Auditor General's staff, which conduct performance audits, to the new office.
- 3 Beginning in fiscal year 1991-92, the PAAR shall be provided General Revenue Fund appropriations for its activities
- 4 Beginning in fiscal year 1991-92, if the PAAR must be funded from the Agency Budget Sunset Trust Fund, appropriate statutory changes shall be made to ensure the .3 % assessment for the Agency Budget Sunset Trust Fund is made on all moneys and trust funds subject to the service charge pursuant to Section 215.22, Florida Statutes.
- 5 The program measures within the Agency Functional Plan shall be used by the PAAR or the PAAR consultant when performing that agency's policy analyses and agency evaluation and justification review.
- 6 An independent auditor shall be required to complete a performance audit on PAAR. The audit report would be due to the Governor, Speaker of the House of Representatives, the President of the Senate, and members of the Joint Legislative Auditing Committee no later than January 1 of each odd year beginning in 1993."



Uniform Program Evaluation Criteria

Findings

The Florida Taxation and Budget Reform Commission finds:

1 Several different state entities evaluate programs throughout the planning and budgeting process.

- a. Individual agencies review and prioritize programs and services as they build their budget requests;
- b. State agencies are required to submit functional plans;
- c. The Legislature's substantive committees review agency programs through their oversight, sunset, and sundown review processes;
- d. The Legislative Appropriations Committees review programs as budget decisions are made;
- e. The Governor's Office of Planning and Budgeting utilizes agency information from budget narratives to accumulate program evaluation information;
- f. The Auditor General conducts periodic performance audits of agency programs;
- g. In 1990, the Legislature created the Office of Policy Analysis and Agency Review (PAAR) which was established for additional program evaluation.

2 State entities do not use uniform criteria in the planning and evaluation processes. The planning and evaluation processes are not linked together.

- a. Current Florida law provides requirements for evaluations performed by the Office of Policy Analysis and Agency Review.
- b. The Agency Functional Plan work group recommended additional improvements to the planning and budgeting process which would further the nexus between the State's planning and evaluation processes.
- c. Evaluating all programs using the same criteria allows the State of Florida to accumulate uniform and comprehensive data about each program.
- d. Uniform program information gives the Legislature, the Governor, Cabinet members, and the public a uniform yardstick by which all programs and services provided by the State are measured.

3 Florida law does not currently require that private-sector alternatives be considered in its evaluation processes.

- a. Private-sector competition may allow for more cost effective service delivery.
- b. Florida privatizes some of its governmental services but does not systematically attempt to implement private-sector cost-saving alternatives into the public sector.
- c. Various studies suggest that private-sector alternatives can be more efficient and cost effective than government production.

The Florida Taxation and Budget Reform Commission recommends:

1 A standard set of criteria shall be utilized in program evaluations and planning processes.

- a. A task force shall be created by the Governor and Legislature to develop a set of Uniform Program Evaluation Criteria. The task force should include representatives from the Auditor General's office, the Office of Policy Analysis and Agency Review, the Governor's Office, the Legislature, state agencies, and the private sector.
- b. The task force should review and clarify the goals and policies of the State Comprehensive Plan, consider objectives found in Agency Functional Plans, and develop a set of Uniform Program Evaluation Criteria which link the planning and evaluation processes.
- c. Florida should address private-sector alternatives in its Uniform Program Evaluation Criteria. A preliminary list of Uniform Program Evaluation Criteria is attached.

2 State agencies shall be required to address the Uniform Program Evaluation Criteria in the narrative portion of their Legislative Budget Requests beginning with the Fiscal Year 1992-93 submissions.

3 The Auditor General and the Office of Policy Analysis and Agency Review shall be directed to consider the Uniform Program Evaluation Criteria in their performance audits beginning with Fiscal Year 1992-93.

4 Procedures shall be taken which are necessary to implement the Office of Policy Analysis and Agency Review and appropriate funding shall be provided.

5 A Private Sector Review Board shall be created to assist with evaluation of each state agency.

Recommendations

PRIVATE SECTOR ALTERNATIVES

Examine whether there are more efficient and cost effective alternatives available in the private sector.

Some programs may be more efficient and cost effective if delivered by the private sector.

1. Have proposals been solicited from the private sector to determine whether the service can be performed in a more efficient and cost effective manner?
2. Are there any private corporations performing this service elsewhere in

the country? If so, should the same contractual opportunity be made available in Florida?

3. Were tax implications considered when comparing the private and public sector costs?
4. What consideration has been given to forming a private/public partnership?

FISCAL STRUCTURE

Examine the program's source of funds to analyze its sufficiency and to suggest alternative fund sources.

Some programs are more appropriately funded with fees while others are more appropriately funded with taxes.

Preliminary List of Uniform Program Evaluation Criteria

FINDINGS & RECOMMENDATIONS

Preliminary List of Uniform Program Evaluation Criteria (continued)

1. How is the program funded? What is the justification for its funding mechanism?
2. If the program is now funded by fees or a dedicated revenue source, how is the revenue source related to the services provided by the program?
3. If the program is funded from the General Fund, are alternative revenue sources (such as fees, service charges, or administrative assessments for overhead) more appropriate?

Some fees are more easily adjusted to cover program costs.

4. Do the revenues dedicated to the program provide fiscal sufficiency?
5. If dedicated revenues exceed the program's costs, can this excess revenue be re-allocated to other priority programs?
6. If dedicated revenues are not sufficient, does the General Fund or do trust funds subsidize the program costs?
7. What type of fee structure is established for the program?
 - a. A specific fee?
 - b. A minimum fee which the agency may exceed by rule?
 - c. A maximum fee which the agency may not exceed?
8. How recently were the program fees adjusted?
 - a. Are automatic increases allowed?
 - b. Is the agency given discretion to adjust the fee?

Some programs are more appropriately funded on a "pay as you go" basis while others are more appropriately funded on a "pay as you use" method.

9. Should the program be funded by short-term financing ("pay as you go") or by long-term financing ("pay as you use")?

ACCOUNTABILITY MEASURES

Examine the program's goals and the agency's progress toward

meeting these goals. Use measures of outcomes and effectiveness to provide accountability for program expenditures where possible.

Some programs have more clearly defined goals and objectives than others.

1. What are the programs goals and objectives?
2. Are the outcomes of the programs measured?
3. Does the program's budget request include both measurable goals and objectives?
4. If so, what are the trends in these measures for the last four years?

Some programs have established meaningful reporting systems.

5. Does the program have cost-benefit or cost-effectiveness measures?
6. If so, has the program become more cost-effective over time?
7. Can this program's results or output be compared with national norms or standards?

Some program results are linked directly to funding. Generally, agencies do not have much information on cost-benefit and cost-effectiveness measures. While such measures are often very difficult to design and implement, these measures are very useful to policy makers.

8. Is program funding linked to program measures?

EFFICIENCY AND EFFECTIVENESS

Examine whether maximum services are provided at minimum cost.

Some programs have clearly defined eligibility criteria while others do not.

1. Can the population for which the service is provided be identified?
2. What percent of the total target population is being served?
3. What are the program's eligibility requirements?
4. Do these eligibility criteria include a means test?

Some programs' eligibility criteria are easier to change than others.

5. Do mandates require recipients to be served?
6. If not, how many of those eligible recipients currently receive the program's services?
7. Should all eligible recipients be served?
8. Can the eligibility criteria be changed or adjusted?

Some programs have significant administrative costs while others do not.

9. How are total program costs calculated?
10. How are administrative costs calculated? How are administrative overhead and/or indirect costs allocated? Can these costs be substantiated?
11. What percent of total program costs are dedicated to administration?
12. How do the administrative costs for this program compare with those of other programs?
13. What are the trends in this program's administrative costs over time?

Some programs duplicate, overlap or complement other programs while others stand alone.

14. Does the program duplicate, overlap or complement programs administered by other state agencies or local governments?
15. Does the program duplicate, overlap or complement other programs administered by profit or non-profit private corporations or private charities?
16. If overlap exists, does the overlap provide marginal benefits?

SOCIETAL IMPORTANCE

Examine whether the program is directed towards maintaining the public's health, safety, and welfare.

Some programs are more critical to meeting the State's highest priority goals than others.

1. Is the program consistent with the goals, policies, and objectives of the State Comprehensive Plan and the Agency Functional Plan?
2. What specific societal effects on the public's health, safety or welfare will result if this program is reduced or eliminated?
3. Are there any alternative public or private providers of these services?

Some programs serve those who require assistance while others do not.

4. What is the target population for this program's services? How is this population expected to change over the next ten years?
5. Can the target population achieve the desired societal outcome without state assistance?

ORIGIN AND AUTHORITY

Examine the program's authority and the social outcomes it was intended to achieve. Determine the degree of difficulty associated with making changes to the program.

Some programs can be changed easily while others are difficult to change.

1. When and why was this program established?
2. When was this program most recently evaluated?
3. Does the condition for which this program was created to address still exist?
4. Is this program required and/or authorized by:
 - a. federal law?
 - b. state Constitution?
 - c. state statute?
 - d. agency rule?
5. What organizational changes to state or local governments are necessary to reduce, consolidate or eliminate this program?

Preliminary List of Uniform Program Evaluation Criteria (continued)

Performance Audit Follow-Up

Findings

The Florida Taxation and Budget Reform Commission finds:

1 Accountability procedures in state government are important to assure the public that public funds are being properly used and programs are being properly managed.

2 Performance audits, meaning "an examination of the effectiveness of administration and the efficiency and adequacy of the program of the state agency authorized by law to be performed" (Section 11.45, F.S.), are performed by the Auditor General on all state programs at least once every ten years, unless directed otherwise by the Joint Legislative Auditing Committee.

3 The performance audits conducted by the Auditor General are, by their very nature, an important part of the accountability process, and adverse findings should be followed up to make certain deficiencies are corrected.

4 While the Auditor General functions as a part of the legislative branch, the performance audit follow-up process clearly places responsibility for acting on adverse comments on both the agency head and the Legislature. The process functions as follows:

- a. The Auditor General's preliminary report is sent to the agency head who has 30 days to comment.
- b. The performance audit report containing the agency head's

comments is released by the Auditor General. Copies are sent to members of the Joint Legislative Auditing Committee, the Speaker of the House, the President of the Senate, the Governor, the Comptroller, interested legislators, the agency, and the media. Copies are available free to the public. Report summaries are sent to all legislators.

- c. In the event of unusual errors or discrepancies, especially if timing is important, the Auditor General will communicate directly with the Speaker and President.
- d. The staff of the Joint Legislative Auditing Committee reviews the audit and sends a communication about the audit comments to the appropriate substantive Legislative Committee if it appears that legislative action may be needed.
- e. A substantive Legislative committee may propose legislation in response to the audit comments if committee members agree that legislative action is appropriate.
- f. Within six months after the release of the audit report, the agency must report to the Joint Legislative Auditing Committee about the action taken, if any, to respond to the audit comments.
- g. If the auditor's recommendations are not acted upon, the comments will show up again in a subsequent audit report.

5 Most comments have to do with procedures which can be corrected by the agency head and do not require legislative action in order to correct them.

6 Testimony heard by the committee indicated that some of the recommendations of the Auditor General are not acted upon by either the Legislature or the agency head. In some cases the Legislature may disagree with some or all of the recommendations of the Auditor General or the agency head may decide not to implement the changes recommended by the audit. In some cases, an agency may not implement changes which it told the Joint Legislative Auditing Committee it would implement.

7 Section 20.055, Florida Statutes, requires each state agency to employ a chief internal auditor. The chief internal auditor is authorized to review and evaluate internal controls necessary to ensure fiscal accountability of the state agency and is authorized to conduct financial, compliance, and performance audits of the state agency.

8 The chief internal auditor must submit preliminary audit findings and recommendations to the person responsible for the supervision of the program function or operational unit who must respond to the findings and recommendations within ten days. The response along with the chief internal auditor's rebut-

tal must be included in the final audit report of the chief internal auditor.

9 The Chief internal auditor must submit final audit findings to the head of the agency and to the Auditor General.

10 Although Section 20.55 F.S. (which requires agencies to have internal auditors) was passed in 1986, full compliance has not been achieved. Between 1988 and October 1990, the office of the Auditor General reviewed the internal audit function in 20 agencies. The audits revealed that:

- a. *Nine (9) agencies needed to clarify the independence of the chief internal auditor,*
- b. *Fifteen (15) agencies had not developed long or short term audit plans which assessed risks related to the agency mission,*
- c. *Two (2) agencies had chief internal auditors who did not technically meet the educational qualifications spelled out in the statute,*
- d. *Four (4) chief internal auditors did not report directly to the agency head as required by law,*
- e. *Six (6) agencies had deficiencies with working papers, and*
- f. *Two (2) agencies had chief internal auditors who had not issued a single audit report.*

*Findings (continued)
Performance Audit
Follow-Up*

Recommendations

The Florida Taxation and Budget Reform Commission recommends:

1 Section 20.055, F.S., shall be amended to require the duties of agency internal auditors to include the responsibility for monitoring the implementation of the agency response to the Auditor General's comments in the performance audit. Six months following the issuance of the audit report, the chief internal auditor shall report, through the agency head, to the Joint Legislative Auditing Committee on the implementation of the agency response to the Auditor General's comments.

2 After the Legislature enacts the Commission's recommendations to revise the Agency Functional Plan Process (detailed in PB 218), the Auditor General shall use the Agency Functional Plan as the measure or standard in conducting performance audits.

3 The Governor and Legislature expeditiously shall improve the post-audit follow-up process in order to ensure that there is more consistent and effective oversight in addressing problems identified in performance audits conducted by the Auditor General.

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