

Meeting Minutes
Planning and Budgetary Processes Committee
Taxation and Budget Reform Commission
Senate Office Building, Room 301
Tallahassee, Florida
Thursday, September 6, 2007
10:00 a.m. – 12:00 p.m.

Committee members: Carlos Lacasa, Chair; Mark Bostick, Sandy D'Alemberte, Mike Hogan, Jacinta Mathis, Bob McKee, Les Miller, Jade Moore, Nancy Riley, Darryl Rouson, Greg Turbeville

Members Present:

Carlos Lacasa, Chair
Les Miller

Members Present by phone:

Mark Bostick
Mike Hogan
Bob McKee
Jade Moore

Members Excused:

Sandy D'Alemberte
Jacinta Mathis
Nancy Riley
Darryl Rouson
Greg Turbeville

Chairman Lacasa called the meeting to order at 10:14 a.m. Staff called the roll and announced the presence of a quorum. The Chair's opening remarks focused on the importance of demographic information to address future budgetary issues. He emphasized that the presentation by Economic and Demographic Research was relevant to the 20 year planning horizon.

The Chair introduced Amy Baker, Coordinator of the Office Economic and Demographic Research to address demographics, services and revenue sources for state government.

The main components of Ms. Baker's presentation were:

Economy

Ms. Baker stated that population growth continues to be the state's primary engine of economic growth, fueling both employment and income growth. This means that "demographics" is key to understanding Florida's future economic health.

Population growth has hovered between 2.0% 2.6%, since the mid 1990's. Over the forecast horizon, population growth will slow – averaging just 1.1% between 2025 and 2030. Florida is still on track to break the 20 million mark and become the third most populous state – surpassing New York – shortly after 2010. In the next decade, almost one-half (46%) of U.S. population growth will come from three states: California, Texas and Florida. The majority of the growth, 87% of growth, is driven by migration (foreign and domestic). As time processes, there will be very few “home-grown” workers. Over half of growth will be in the over 60 age range. Traditionally, younger age cohorts have supported older age groups. However, this is no longer true in Florida or around the world.

According to Ms. Baker, currently Hispanics represent about 19.6 percent Florida's population Florida will become increasingly more Hispanic; as Hispanics are forecast to represent just over 25 percent of Florida's population in 2030. In 2005, over 4.1 million Floridians (age 5 or older) did not speak only at home; 1 million of which spoke English “not well” or “not at all”. If this relationship continues, by 2030, over 6.4 million Floridians (age 5 or older) will speak another language possibly in addition to English at home, of which almost 1.6 million will speak English “not well” or “not at all”.

Florida Challenges

- Aging State – more intense in Florida than elsewhere because population share (26.1% in 2030).
- Growing State – all of the same problems as we've had in the past, only more so
 - Greater Need for Services
 - Allocation of Increasingly Scarce Natural Resources (especially water)
 - Provision of Needed Infrastructure (new and replaced)

Strategies for Dealing with Challenges

Ms. Baker indicated that attracting migration from countries which have greater youth populations will become an important relief valve for worker shortages. On average, immigrants are younger than native Americans, are more inclined to work and have more children per family. Incentive programs to keep workers in the workforce longer will also be important.

Ms. Baker stated that a tax structure which relies heavily on workforce that will have to be adjusted or re-evaluated due to the shifts in the workforce. She made the following comments:

- Smaller percent of individuals will assume bulk of tax burden at the same time service requirements increase
- Sales tax will position Florida better than states with income tax
- Older people spend less on goods, more on services
- If no adjustment, less revenue for General Revenue through sales tax collections
- Services make up about 60% of personal expenditures

Commissioner Miller asked whether major companies come to Florida to keep their workforce intact even with projected growth in Florida. Ms. Baker's response was that EDR has not specifically addressed that issue but it was an excellent point. All of the pieces are interactive.

Implications for Services

Overall, the state will face the need for more costly services with less revenue. Labor-intensive jobs (firefighters, police, and construction) will be harder to fill. Today's elderly prefer face-to-face interaction. In the future, people will become more technologically savvy and more comfortable working over the internet and less reliance on physical space. There will be fewer employees as the use of technology increases.

Commissioner Miller inquired whether labor intensive jobs will be harder to fill or will there just be a need for more labor intensive jobs. Ms. Baker responded that it will be a shrinking pool and a higher need for more labor intensive jobs.

Health Care

Ms. Baker commented that today, elderly and disabled Medicaid recipients account for an estimated 23% of the total caseload – but almost 70% of Medicaid spending. Use of acute and long-term care services is high. The majority of nursing home residents rely on Medicaid support after the cost of their care exhausts their savings and they qualify for assistance. An increasing array of new services, procedures and drugs prolong life – but also the potential for chronic problems. The number of available family caregivers will diminish in relation to the number who needs care.

Chair Lacasa questioned whether Florida has looked at concepts like the Oregon program where health care services are rationed. Ms. Baker indicated that Florida has not reviewed this concept program. Chair Lacasa asked how accepted was the program in Oregon. Ms. Baker indicated that in their region, it is accepted, but introducing it in the South would require “starting over” with acceptance issue. As new solutions keep people alive longer there will be more costs for long-term chronic health issues. The number of available family caregivers will diminish over time.

Criminal Justice

The propensity to commit crime diminishes over time; however, Florida has been increasing the classification of crime. In the future, prisons will have an increasing share of older and infirm inmates and the likelihood of increased crimes and acts of fraud against the elderly will stress the system.

According to Ms. Baker, the Taxation and Budget Reform Commission has a unique opportunity to make recommendations that affect a twenty year period. The budget is effective for one year, long term financial projections address three years and revenue estimating conferences usually only include five years.

Chair Lacasa asked Ms. Baker to suggest critical areas that the commission could focus its attention. Ms. Baker responded that the Baby Boom cohort effect is critical for

services and revenues. The Chair inquired whether this was an area that the commission should consider ways to influence the effect of demographic changes. Ms. Baker responded that ways to offset or mitigate the effect will be critical in the future.

Education

According to Ms. Baker, Florida's school-age population (ages 5-17) currently represents about 16.5% of the population. This age group is forecast to represent 14.7% of total population by 2030. School-age population has been slowing in growth, but is not expected to decline over the forecast horizon. Growth in public school enrollment has slowed from a recent peak of 2.8% in 2001 to a decline of 0.4% in 2006.

Transportation

Aging population will have significant impacts on mass transit and other means of transportation.

Property Tax

Ms. Baker pointed out that traditionally, senior citizens have opposed property taxation to greater extent than the rest of the population. Not only do many live on fixed incomes, but they also have no school-age children. As their connection to providing this type of funding diminishes, they are more apt to oppose property tax increases of any kind. Conversely, Florida offers several income-based exemptions and tax advantages for senior citizens that will become increasingly expensive as the baby boomers hit their retirement years. While today's elderly have the lowest poverty rates of any age group, this will not be true in the future. An estimated one-third of boomers are projected to have limited financial assets or private pensions when they retire. Broad based stable, fair tax sources that will continue to grow.

Revenues

Ms. Baker noted that one implication of the declining working-population is that government tax structures which rely heavily on this age-group will have to be reevaluated. An increasingly smaller percentage of individuals will assume the bulk of the tax burden as the number of elderly increases and the demand for services continues to grow. The states that will be hardest hit are those that rely on personal income and payroll taxes as their revenue sources.

Sales Tax

Studies have found that the elderly tend to spend less than younger persons on goods and more on services. The state's current sales tax structure with its dependence on the sale of goods will come under pressure from this fact. If this risk is not addressed, then the state will likely see much lower growth rates for sales tax receipts than it has normally seen in the past. Services make up 60% of personal expenditures.

Commissioner Miller inquired whether the commission should look at revamping the sales tax structure. Ms. Baker commented that it may be necessary to make some adjustments to the sales tax base. She indicated that it would be a good strategy to review the tax structure.

Chair Lacasa asked if the commission should pursue the sunset of sales tax exemptions. Ms. Baker answered that it was a good strategy for the big picture but it would be a policy question. Chair Lacasa asked to what extent does Florida tax production at all levels. Ms. Baker referenced a review of the “Pyramiding” report by Hellerstein during Service Tax debate in 1987. Commissioner Miller asked about internet sales. The response was that this issue is under review by the Finance & Taxation Committee.

Chair Lacasa asked Ms. Baker whether the committee should consider the Value Added Tax (VAT) concept. Her response was that this was a policy issue and there are always trade offs. The Chair asked which other states have the value added tax. Ms. Baker indicated that her office would research the issue and respond to the committee.

Chair Lacasa asked are current sales tax and property taxes, with future changes, good bases for revenue. Ms. Baker said that from an economic perspective, property taxes are user based and more efficient. Short of user taxes, economists would say property taxes are good. From the “people” perspective; the equity issues come more into play. Chair Lacasa asked to what extent can the property tax structure influence demographic. Ms. Baker answered any higher tax relative to neighbor states would provide disincentives to migration. Chair Lacasa asked would a properly developed property tax structure slow growth of aging demographic. Chair Lacasa continued, if we were to keep Save Our Homes, and then tax rate of growth, would that create incentive, disincentive, or neutral for population growth. Ms. Baker responded that there will always be losers for all winners; it’s a zero sum game. Smoothing across all sectors, the effect would be to decrease the positive value of Save Our Homes.

Chair Lacasa asked how we can incentivize growth of working population and slow growth of aging population to affect demographic. Ms. Baker said the system would have to be equal from day one. Chair Lacasa asked would the “super exemption” be such a solution. Ms. Baker responded that it could be a solution. Chair Lacasa inquired whether EDR has a concern regarding a “peak level” of population for state. Ms. Baker indicated that EDR has no such concern. However, they have more concern about ongoing service needs, infrastructure needs and growth demands. Chair Lacasa inquired whether Medicare and Social Security benefits are portable within migrating eligible populations. Ms. Baker answered that there is some self-selection. The poorest of the elderly won’t come to Florida, but mid-level to more economically stable individuals will move and bring benefits.

Chair Lacasa stated that the budget and tax structure process works; the committee should review tax exemptions, business taxes, and how to address impacts of growth. Ms. Baker’s response was that the state has a base and should move forward to make the system more resilient.

The Chair asked the committee members for subjects or ideas that they could suggest for future discussions. Commissioners McKee and Miller indicated a review of sales tax exemptions and property taxes

Chair Lacasa asked if any committee members had any questions or comments before closing the meeting. Commissioner Hogan asked whether the committee was looking at all budget issues. Chair Lacasa indicated that he had not had any requests to look at other issues and inquired whether the members thought that he was on the “right track” with the topics that were under review. He also stated that the committee could add new ideas if there were suggestions; however, he was not getting any pressure to do anything to change the budgetary process.

There being no further discussion, the meeting was adjourned at 11:35 a.m.

Any presentation documents and audio recordings of the meeting are posted on the commission website at www.floridatbrc.org for further review.