



The Florida House of Representatives

MEMORANDUM

To: Members, Florida House of Representative
From: Ray Sansom, Chairman, Policy and Budget Council
Date: 01/09/2008
Re: Fiscal Year 2008-2009 Budget

A handwritten signature in black ink, appearing to be "RS", is written over the "From:" line of the memorandum.

Dear fellow members:

Yesterday the House Policy and Budget Council met to begin work on preparing the Fiscal Year 2008-09 state budget. Information was presented to our council that I believe all House members should receive. I have summarized this information below and ask for your careful consideration

First, General Revenue collections continue to come in below the forecast, even though the forecast has been lowered for each of the last three estimating conferences. Since the most recent estimating conference in November 2007, we have collected almost \$100 million less than anticipated. Because of the possibility that this trend will continue, we were advised to hold between \$400 and \$600 million in reserve in anticipation of the forecast for Fiscal Year 2008-09 being lowered again in the new estimating conference. The reasons for this downturn in collections include a continued and longer than expected slowdown in the housing market, rising unemployment, high energy prices, turmoil in the credit market and the increasing probability there will be a national recession. Unlike recent downturns in the US economy, this time Florida seems to be worse off than the rest of the nation.

Second, we learned that the downturn in Florida's economy is likely to last through 2008 and into 2009, indicating that it would be unwise for us to spend one-time monies on recurring expenditures in hopes that this revenue downturn will be short-lived. The more appropriate course of action is to make reductions to the budget so that recurring expenditures do not exceed recurring revenues

Third, we received a presentation on the 2007 Debt Affordability Study. This annual study is required by Florida law in order to keep the members of the Legislature informed regarding the amount of debt which is being supported through state revenues. Unfortunately, the news is not good here as well. Due largely to the decline in revenue collections, state tax-supported debt for the coming fiscal year will exceed the statutory target debt ratio of 6 percent (the ratio of debt service on state tax-supported debt to revenue available). Thus, for the next three fiscal years, the state has no additional bonding capacity beyond already authorized programs if it wishes to stay below the target debt ratio

01/09/2008

Page 2

Finally, the council heard from the business community regarding the need to stimulate Florida's economy in order to return to more normal levels of economic activity in the state. It is important that we all consider innovative approaches for stimulating Florida's economy.

Based on the information our council received, I would like to suggest some guiding principles for the House as we prepare our budget for the upcoming fiscal year. These principles are as follows:

1. **We will need to make recurring General Revenue reductions of approximately \$2 billion to our base budget.** These reductions are necessary if we are going to provide modest levels of funding increases to pay for growth in education, health care, public safety, and the environment. Reductions can be achieved through elimination of non-essential programs, agency consolidations, and recurring redirections of revenue from trust funds to General Revenue. I am asking all House members to help identify budget reduction strategies
2. **We should not attempt to balance our budget by using one-time (nonrecurring) monies for recurring purposes.** Employing this strategy will only postpone and worsen the situation. Florida's economy will turn around, but it will take a couple of years for us to return to more normal levels of revenue growth. In the meantime, we must ensure that our recurring spending does not exceed recurring revenue collections.
3. **We should not use additional bonding as a method to fund new or existing initiatives. Even with no additional bonding, our level of debt service will exceed the target debt ratio of 6 percent next year.** In addition, new bonding programs create new long term revenue obligations for the state, something that we must avoid, particularly so that we can maintain a reasonable level of bonding capacity in case of state emergencies.
4. **Finally, we should explore new and innovative ways to stimulate Florida's economy. I know all of you have good ideas on ways we can stimulate our economy.** Think about approaches such as reforms to regulatory programs and tax incentives to stimulate Florida's economy

Thank you in advance for your assistance in preparing our FY 2008-09 state budget. I know that each of you is up to the challenges of crafting a budget that meets the state's critical needs, balancing spending to available recurring revenues with no additional state debt, and providing the stimuli we need to jumpstart Florida's dynamic economic engine.