Brookings
7th Annual Municipal Finance Conference

State Recovery from the Great Recession

July 2018

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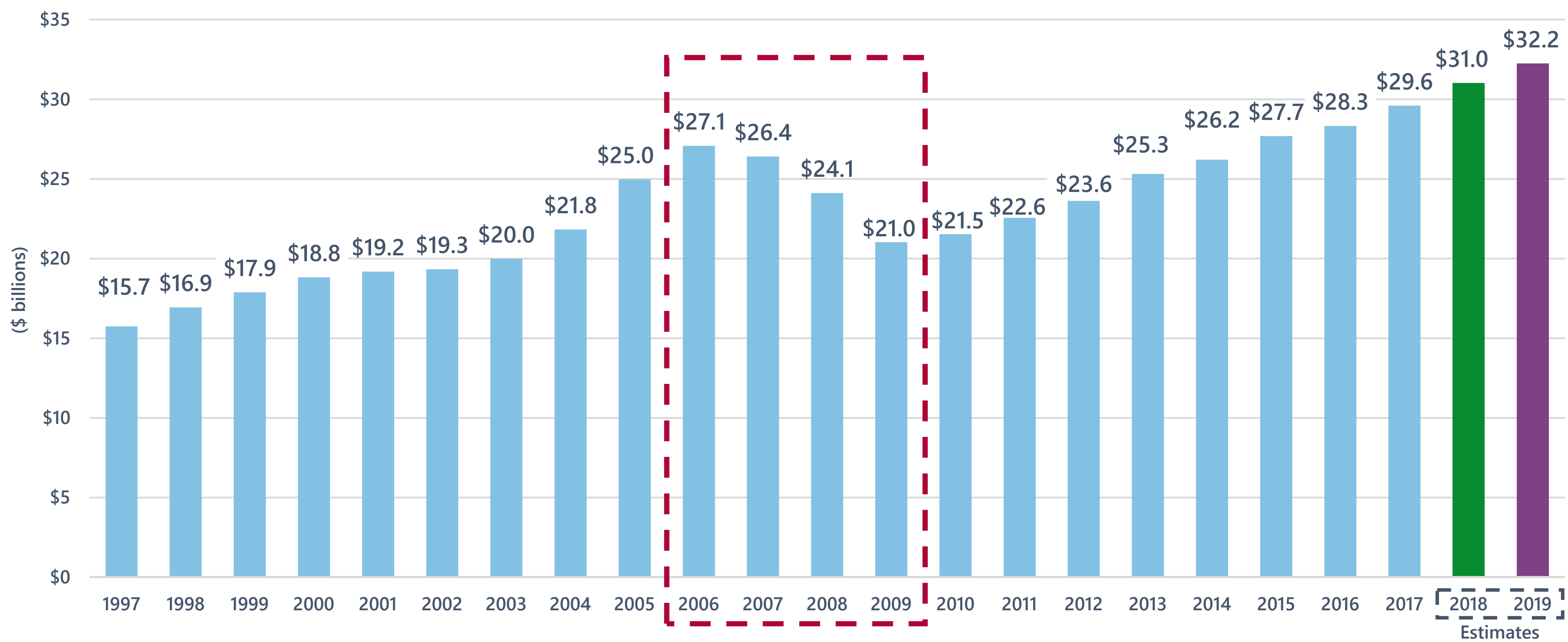
Florida's General Revenue Decline



- Florida's General Revenues declined by over $6 billion or 22% from FY 2006-2009
- Declining revenues created budget gaps from FY 2008-2012
  - Budget deficit reached as high as $5.5 billion in FY 2009

Florida's Profile

- Republican Control for many years
  - Executive branch and House and Senate
- Balanced Budget requirement
  - General and oblique (constitutional)
  - Appropriations cannot exceed revenues
- Revenue limit
  - Last year's revenues plus growth in personal income
- Statutory framework for fiscal management
  - Revenue Estimating Conferences
  - Projected variances require action if >1.5% of forecast
- Policy Limit for Debt
  - Soft limit
  - Debt Service can't exceed 6% of revenues

Budget Balancing Exercise

- The primary tools used by the State to address the revenue decline and resulting budget deficits included:
  - **Spending Cuts**
    - Appropriations decreased nearly $6 billion from FY 2007 to FY 2010
    - Growth returned as recovery took hold -- FY 2019 total appropriations of $89.3 billion are $21.4 billion more than FY 2010
  - **Use of Reserves**
    - State spent over $7 billion of its reserves from FY 2006 to FY 2009
    - As revenues improved, State rebuilt reserves -- FY 2018 total reserves of $5.1 billion vs. $2.8 billion in FY 2009
  - **American Recovery and Reinvestment Act (“ARRA”)**
    - $5.5 billion in additional Federal funding from FY 2009 through FY 2011 which helped supplement General Revenue and Trust Funds
  - **Raising Taxes**
    - Generated over $1 billion in additional recurring State revenues

Additional Steps Taken

- The State also implemented Pension Reform & Pension Holiday
  - State implemented Pension Reform in 2011
  - Required employees to contribute 3% of salary, prospectively eliminated the Cost of Living Adjustment benefit, and extended vesting period
  - State's pension funding holiday from FY 2011-2013 created $2.1 billion in additional budget flexibility
- Substituted financing for PAYGO in certain instances
  - Prisons 2009 financing ($450 million budget relief)
- Capital spending reductions, staff cuts, salary freeze
- State took action on specific bonding programs as needed
  - Documentary Stamp Taxes, which back State environmental bonds, decreased nearly 75% during the great recession ($4 billion in FY 2006 to $1 billion in FY 2010)
  - State responded by expanding the pledged revenues from 63% of Documentary Stamp Taxes to 100%

Anecdotal Observations of Other States

- Political acrimony – intraparty squabbles
- Late Budgets – Illinois is poster child
- Pension Holidays – chronic vs. episodic
- Ballot Initiatives/Revenue Limits
- Credit Downgrades
- Deficit Spending
- Connecticut
  - Recently embedded spending and borrowing limits in its General Obligation debt

What Matters

- Management
  - Demonstrated fiscal prudence

- Integrity of Institutional Processes
  - 3-year Plan
  - Revenue estimates

- Financial Discipline
  - Structural Budget balance
  - Timely Budget adoption
  - Avoiding one-shots or budget gimmicks