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M E M O R A N D U M

TO: Adam Hollingsworth
Chief of Staff to the Governor

FROM: Jerry McDaniel

SUBJECT: Reserves and Tax Relief

DATE: October 1, 2013

You have posed the question to me as to whether it is theoretically possible for the 2014-2015 budget to accomplish two seemingly conflicting goals:

- Increase unspent General Revenue for reserves
- Provide tax reductions of $500 million

The short answer is yes, assuming there is sufficient control exercised on the spending side of the ledger.

As we initiate work on the Governor's Budget Recommendations, one tool we use is the Long Range Financial Outlook jointly prepared by the House, Senate and EDR. As you know, this document, which used the REC's latest revenue projections, reflects an excess of roughly $846 million in revenue after meeting the State's critical and high priority needs. In addition, these dollars include earmarks of $1 billion toward reserves, clearly leaving sufficient funds to provide broad tax cuts for Florida families and increased reserves.

A couple of things come to mind immediately which could easily cover this need, either individually or in tandem:

1) Reductions. The 1st year of the financial plan does not contemplate reductions in spending, which the Governor has proposed and the Legislature has agreed to, in each of the last 3 years. Agencies will send in reduction ideas later this month and as a result surplus GR will grow as reductions are implemented.
2) Trust fund sweeps to GR. The financial plan includes no movement of excess trust fund balances to general revenue even though this mechanism is used most years.
3) Additional GR growth. There will be two additional GR forecasts before the 2014 legislature concludes its work. By any measure the Florida economy is rebounding and revenue growth appears inevitable.

My short answer above notes control on the spending side of the ledger. I bring this to your attention because the Governor vetoed almost $368 million in projects in last year's budget, $159 million of which was funded from general revenue. Experience tells me that with the significant amount of non-recurring dollars available this year, spending restraint for local projects will be very challenging.

Should you desire a deeper dive into whether the goals above are desirable from a policy standpoint, please let me know. Suffice it to say that true total reserves (unspent GR, excess TF balances, LCETF, and the BSF) are forecasted to reach over $4 billion by the close of this fiscal year, roughly 15% of forecasted general revenue receipts. This is considered very healthy by the ratings agencies and makes it ever more important to balance growing reserves and return excess money to Florida families.

Please let me know if you desire additional information.