POLICY BRIEF

The Conservative Florida Budget: Fiscal Year 2024

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Introduction

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Florida's pro-growth fiscal framework helps people flourish. More people are moving with their feet to Florida than anywhere else in the United States – the Sunshine State saw the largest percent increase in in-migration (1.9%) in the country in 2022. This was driven by the fact that the state had robust growth in economic output (3.8%) and personal income (6.9%) in the third quarter of 2022, and this supported the second highest percent increase in nonfarm job creation (4.8%) in 2022. This successful framework is a recipe for success. It can and should be improved to remain competitive with other states (as they attempt to strike at Florida's position) and so that Florida continues to be a place to achieve one's American dream. While Florida ranks first in economic freedom and near the top in other measures compared with large states and most other states, no state can rest on its laurels or it will fall behind thereby supporting fewer ways for people to prosper.

The ultimate burden of government is how much it spends. Fortunately, Florida's Governor Ron DeSantis recently released a pro-growth budget with his Framework for Freedom budget of $114.8 billion in recommended all funds appropriations for fiscal year (FY) 2024. The budget also includes $2 billion in tax relief, $15.7 billion in total reserves, and $3.4 billion in the rainy day fund. This sets forth more opportunities for growth and prosperity in Florida.

Based on the analysis in this report and the desire to keep Florida competitive, The James Madison Institute (JMI) builds on the success in Florida by recommending that the state continue to limit the burden of government spending. JMI calls this the Conservative Florida Budget (CFB) which sets a maximum threshold in all funds appropriations for FY 2024 of $116.2 billion.[1] This maximum threshold is based on the 5.5% rate of the 3-year average of population growth plus inflation over the last three years from 2020 to 2022, which reasonably represents the average taxpayer's ability to pay for government spending.

Figure 1 Conservative Florida Budget

THE CONSERVATIVE FLORIDA BUDGET

$116.2 BILLION
ALL FUNDS

5.5% increase above FY 23 appropriations based on growth in population and inflation

Legislators should use the CFB as a guide this session and ultimately use it to strengthen the state's spending limit either in statute or ideally in the constitution. And given the economic headwinds from the poor fiscal and monetary policies out of D.C. contributing to elevated inflation and risks of a deep recession along with past state budget excesses, the Legislature should pass a budget well below the CFB, similar to the Governor's budget. Doing so will ensure a conservative budget that will help keep more money in taxpayers' pockets through larger tax relief, so families and entrepreneurs have the most opportunities to flourish.

Institutions Matter

Table 1 provides comparisons among the largest four states and the overall U.S. data given their different institutional frameworks and resulting measures of economic freedom, migration flows, government taxes and spending, costs of living, labor markets, income inequality, and poverty.

The more conservative states of Florida and Texas tend to have more economic freedom and limited government policy agendas than the more progressive states of California and New York. This includes how Florida and Texas are two of the most economically free with relatively less government spending and tax burdens, more robust labor markets, lower costs of living, and less poverty—even when they tend to spend less on public welfare per capita. On the other hand, California and New York are near the worst in most of these measures. While these two progressive states have lower official poverty rates, this measure is problematic, which is improved on in some ways in the supplemental poverty measure by accounting for some cost-of-living differences, though this measure also has problems. Ultimately, Florida has the most economic freedom supporting more prosperity and opportunities for Floridians to succeed, which follows the research on this issue, indicating institutions truly matter. And it all starts with Florida's state budget.

Historical Budget Trends

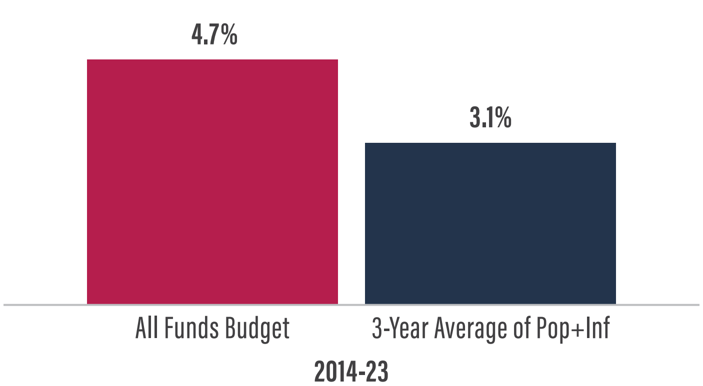
Figure 2 shows Florida's budget trends since FY 2014. Over this decade, the average annual growth in initial all funds appropriations increased by 4.7%. This was 1.6 percentage points higher than the 3-year average annual increase in the rate of population growth plus inflation of 3.1% over this period. We use the 3-year average rate of population growth plus inflation to smooth out the annual volatility which has been higher in recent years and this helps to have a more stable comparison over time.

Table 1. Comparison of Largest States for Measures of Economic Freedom and Outcomes

Measure	U.S.	Florida	Texas	California	New York
Economic Freedom of North America (2020)	7th (World)	1st	4th	49th	50th
State Migration Trends, Most Inbound (2022)	--	1st	4th	41st	50th
State Business Tax Climate (2022)	--	4th	13th	48th	49th
State Economic Outlook (2022)	--	8th	11th	48th	50th
State & Local Spending Per Capita (2022)	--	5th	14th	47th	49th
S&L Spending on Public Welfare Per Capita (2020)	--	47th	44th	5th	1st
S&L Tax Burden Per Capita (2019)	--	8th	4th	43rd	50th
S&L Property Tax Collections Per Capita (2019)	--	21st	40th	37th	47th
Composite Cost of Living Index (Q3:2022)	--	32nd	17th	48th	47th
Avg. U-3 Unemployment Rate (2002-21)	6.1%	5.8%	5.8%	7.4%	6.3%
Avg. Labor Force Participation Rate (2002-21)	64.2%	60.7%	65.4%	63.8%	61.7%
Avg. Emp-Pop 25-54-year-old Ratio (2002-21)	77.8%	77.5%	77.3%	75.3%	76.1%
Avg. Top 10% Income Shares (2000-18)	45.6%	41.8%	42.6%	42.3%	35.5%
Official Poverty Measure (2019-21)	11.2%	12.5%	12.9%	11.0%	12.3%
Supplemental Poverty Measure (2019-21)	9.6%	11.9%	10.4%	13.2%	12.1%

Notes. Dates in parentheses are for that year or the average of that period. Data shaded in red indicate "best," and in blue indicate "worst" per category by state. Comparisons are similar to a report by the Texas Public Policy Foundation.

Figure 2 Florida's Budget Compared with Population Growth Plus Inflation (Average Annual Rates)

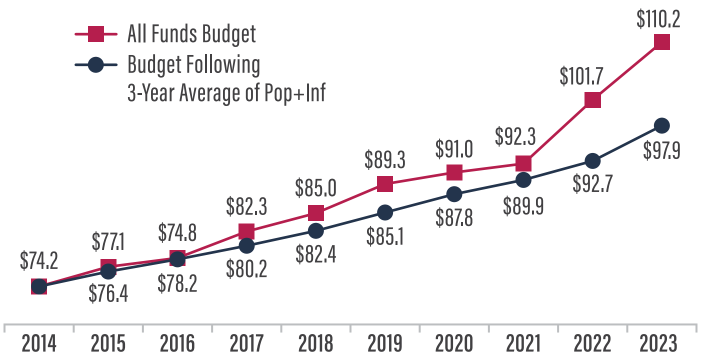


Note. Data are the average annual growth rate for Florida's all funds appropriations and the 3-year average growth rate of Florida's population growth plus U.S. chained-CPI inflation.[2]

These initial appropriations are what were enacted by each legislature, not total state spending, as appropriations-to-appropriations allows for apples-to-apples comparisons for this period given the FY 2023 period is not over. Moreover, the known appropriations is just the initial amounts enacted after each session, so it provides a consistent comparison. When supplemental spending is high, total spending will be well above the enacted budget but will be caught up in the next budget period as that will create a new base budget.

Figure 3 illustrates all funds appropriations over the last decade and the appropriations that would have happened if they had followed the 3-year average rate of population growth plus inflation each year.

Figure 3 Florida's All Funds Budget Compared with the Budget Following Population Growth Plus Inflation (Billions of $)



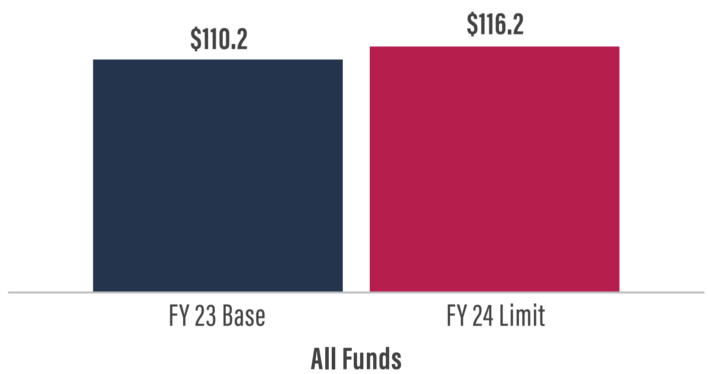
Note. Data are [Florida's all funds appropriations] and those appropriations following the 3-year average rate of [Florida's population growth] plus [U.S. chained-CPI inflation] over time.

The budget growth excesses over this period have resulted in a larger budget and therefore higher taxes than if it followed the 3-year average rate of population growth plus inflation – meaning some tax relief is left on the table. This results in all funds appropriations for FY 2023 being $12.3 billion higher than following this key metric, translating to the potential of $544 in additional relief per person. But, when you consider the cumulative differences between the actual budget and the budget if policymakers followed this key metric, the cumulative difference is $36.4 billion – amounting to a potential $1,600 in potential tax relief per person. It is important to note that much of this has been driven by federal funds sent to the state by President Biden and Democrats in Congress, thereby inflating the budget with one-time expenditures that should be watched closely and not used for ongoing appropriations.

Conservative Florida Budget

The FY 2024 Conservative Florida Budget sets a maximum threshold on the upcoming all funds appropriations based on the summed 3-year average rate of the state's resident population growth and inflation, as measured by the U.S. chained-consumer price index (CPI), over the three years prior to the legislative session. In the 2020-22 period, the latest data available show that Florida's population increased by 1.1% and the U.S. chained-CPI inflation increased by 4.4%. The sum of these values is an increase of 5.5% which serves as the maximum growth rate for all funds appropriations in FY 2024. With an approved all funds base budget of $110.2 billion in FY 2023, Figure 4 shows that the FY 2024 Conservative Florida Budget is a maximum of $116.2 billion.

Figure 4 Conservative Florida Budget: FY 2024 (Billions of $)



As noted above, there are some economic headwinds faced by Floridians. There is the high likelihood of a U.S. recession which Florida will be able to withstand much of because of its high economic freedom, but it will not be immune. Another issue is elevated inflation as noted by the 4.4% average increase in chained-CPI over the last three years (highest in decades), which has created an affordability challenge for many families. While the state legislature cannot control inflation, it can help reduce some costs influencing a family's budget by appropriating less than population growth plus inflation or a no-growth budget and using the resulting surplus funds for substantial tax relief. And passing a budget below this key metric will also help reduce the costs of excessive past budgets, thereby giving more opportunities for people to thrive in the productive private sector.

Conclusion

Florida is an economic leader because it has practiced pro-growth policies for years. These pro-growth policies of relatively lower government spending, taxes, and regulation compared with many other states have made Florida attractive to employers and families. This strong institutional framework must continue, but there is also room for improvement as outlined here regarding the state's all funds budget. Compared with the average 3-year rate of population growth plus inflation, the average annual growth of all funds appropriations has exceeded that of this key rate over the last decade. In order to correct for past budget excesses and deal with economic headwinds, the Florida Legislature should pass a budget in 2023 that grows by less than the proposed Conservative Florida Budget . And the legislature should put this stronger state spending limit into state law or the state constitution with a supermajority vote requirement to exceed it so future legislators are less likely to excessively grow government. This will result in more surplus dollars available to maximize tax relief and strengthen the state's fiscal and economic situation for today and the future. Doing so will move The Sunshine State into an even more vibrant population and robust economy that will provide more opportunities for all Floridians to flourish.

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Endnotes

1 The Conservative Florida Budget's maximum threshold for state funds is $74.9 billion.

2 The Bureau of Labor Statistics notes that chained-CPI accounts for substitution bias between goods and services which is not accounted for with headline CPI.

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