

ASSOCIATED INDUSTRIES OF FLORIDA
**LEGISLATIVE
DAILY BRIEF**



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CABINET REORGANIZATION

The House Fiscal Responsibility Council approved HB 577 by Representative Mark Flanagan (R-Bradenton) today. The vote was 23 yeas and 0 nays. The next stop for the bill is the Council for Competitiveness Commerce. As you may recall, a House “Council” is the umbrella committee that oversees the work and provides final review on legislation produced by various “families” of committees. For example, the House Fiscal Responsibility Council is the final stop for legislation generated by the appropriations, tax, and governmental oversight committees.

As we have previously reported, HB 577 embraces a reorganization of the Florida Cabinet supported by AIF. The 1998 voter-approved revision of the Florida Cabinet collapsed the State’s Treasurer & Insurance Commissioner and State Comptroller into one office known as the Chief Financial Officer. HB 577 places the new CFO firmly in charge of the state’s finances and the Constitutional duties currently shared by both offices. However, the bill places the necessary distance between the CFO and the extensive duties of regulating the insurance securities and banking industries. While the Senate is moving a version advertised as a “compromise” with the House position, we maintain that the House bill best protects the citizens of Florida from the potential political compromise of the Office of CFO while insuring the regulatory integrity of these industries.

The HB 577 structure provides for the simplification and consolidation of governance, a desire expressed by the vote of the people in 1998, while at the same time providing for the necessary public and legislative oversight of the commissioner-selection process. In addition, this structure provides for a fair and equitable regulatory environment for the insurance and banking industries while in no way diminishing the historic oversight and enforcement authority practiced by the current Treasurer and Comptroller. The hybrid CS/SB 232/662 bill fails to meet these standards.

TAX REFORM

The House Select Committee on Florida’s Economic Future, chaired by Representative Johnnie Byrd (R-Plant City), held a public hearing today. The expressed purpose was to receive testimony on the Senate’s tax reform plan.

Principle among those asked to testify were Dr. Henry Fishkind, an economist who was brought aboard by Senate leader, Senator John McKay (R-Bradenton) to “score” the economic impact of the tax reform plan. Fishkind’s calculations have been generally kind to the Senate plan, as one might expect.

Dr. Randall G. Holcombe, of Florida State University, also an economist, was asked to testify, as well. Dr. Holcombe, who takes a dim view of the Senate plan, was not asked by the Senate to testify. While there was obvious professional respect between Fishkind and Holcombe, Holcombe’s conclusions about the plan were considerably darker.

Holcombe basically stated that Florida’s tax system simply is not broken. The system is certainly not any more prone to economic downturns that are found in other states and has, in fact, been extremely resilient.

Holcombe allowed that what the Legislature should be doing is investigating mechanisms whereby the State could more responsibly manage its money when the coffers are flush. Said Holcombe, “if you spend every dollar you take in when times are good, then budget cuts during a downturn are unavoidable.”

Both economists agreed that, in fact, the proposed “broadening” of the sales tax base would not have a dramatic effect on Florida’s ability to avoid a thinner revenue stream during a downturn. Only by taxing groceries, medicines, medical care and rental properties will one be able to “protect” the budget from an economic downturn and, of course, that would be a regressive and punitive tax policy on those who can least afford it.

One legislator asked, “after the reform plan comes into effect, after the first year, is it a tax increase in the second year?” Holcombe responded, “yes.”

Dominic Calabro, president of Florida Taxwatch, testified. He characterized the Senate reform plan as the most “radical proposal” on taxes in 70 years. Calabro stipulated to the Committee that such a dramatic proposal demands much more forethought and review. Calabro pointed out that the numbers that the Senate was working with in scoring the value of the various sales tax exemptions for its implementing bill were, “uncorroborated and there has been no independent or consensus review.” In other words, the numbers are a guesstimate at best.

Finally Calabro pointed out to the Committee that if Fishkind’s numbers were correct in that the Senate plan would reduce the cost, per family in taxes, by \$240, then the plan was effectively a \$1.4 billion cost shift to Florida’s businesses. Calabro very directly stated that this would have a “chilling effect” on Florida’s businesses - the outlying impact of which could be extremely damaging.

The Committee, based on its public testimony, throughout the State and at the Capitol, will issue its report later this week.

We can hardly wait.

AIF is opposed to the Senate’s tax reform plan. It unnecessarily and injuriously amends the Florida Constitution as a vehicle for the reform. Any consideration of Florida’s sales tax exemptions should remain under the direct purview and authority of the Executive Branch and Legislature. Also, the plan compromises any rational consideration of the sales tax exemptions under current law by establishing a predetermined end result. If adopted, the plan will require the repeal of \$4.2 billion in sales tax exemptions regardless of their merit or their ability to meet objective criteria or *any* criteria. Finally, the plan is based upon faulty or outright inaccurate assumptions regarding Florida’s future tax revenues.

AIF would support a measure that provided for a methodical review, utilizing objective criteria, of all the current sales tax exemptions enjoyed by businesses, organizations and services. Florida’s current business sales tax exemptions actually comprise only \$1.88 billion of the \$22 billion total in sales tax exemptions. We believe the vast majority of these business exemptions would withstand even the most severe scrutiny if the criteria embraced economic competitiveness, fairness and benefit to Florida’s overall economic growth.

Stay tuned to our daily brief and to our web site at www.fbnet.com as the legislature makes some very important decisions on the state’s economy. These decisions will have a major impact on the business community and AIF will be reporting to you everything that happens.

This report was prepared by Curt Leonard, Manager – Governmental Affairs at Associated Industries of Florida (AIF). Please send your comments or suggestions to us at aif@aif.com or call the Governmental Affairs department at (850)224-7173.

- For more information on all of the important legislative information concerning the business community, go to our “members only” Florida Business Network web site at <http://fbnet.com>
- Send us your E-mail address and we will begin to send this report to you automatically via E-mail.