



From September 6, 2007

Last week was a busy time in Tallahassee as legislators were in town to listen to presentations from all state agencies and departments on how to reduce the state's budget in response to the revenue shortfall the state is experiencing. In this report you will find a synopsis of some of the major reductions being proposed that are relevant to the business community.

In addition, the Governor's Action Team on Energy and Climate Change held its first meeting last week. Associated Industries of Florida has been an active participant in the discussions taking place in Tallahassee relating to energy and climate change. In this week's interim report you will find a complete re-cap of what took place at this meeting.

Proposed Budget Cuts

Florida is looking at a shortfall in revenues this year due to a slowing economy. The Florida Legislature, Executive Branch and all state agencies are trying to find ways to tighten their belts and deal with a deficit of approximately \$1.1 billion. Even though a formal call for a Special Session to solve the shortfall in the state budget has not occurred, the Florida Legislature was at work last week reviewing the problem. The week began with a meeting of the Legislative Budget Commission (LBC). Created by a constitutional amendment adopted in 2006, it is the LBC's charge to develop a long-range, 3-year financial outlook and shall update that outlook each year. The fourteen members of the Commission, seven from the House and seven from the Senate shall complete the long-range financial outlook by September 15 of each year. The LBC is to seek input from the public and from the executive and judicial branches when developing and recommending the long-range financial outlook. This outlook provides a longer-range picture of the state's fiscal position that integrates projections of the major program driving Florida's annual budget requirements with the revenue estimates. The state will need to look at budget reductions and reduced growth; trust fund transfers; revenue enhancements and funding redirection or any combination thereof. The LBC will review and adopt the long-range financial outlook at its next meeting scheduled for Monday, September 10. This will be the first long-range financial outlook for the LBC.

The Senate Appropriations Committees and House Councils spent most of last week reviewing state agency budgets to see where cuts could be made. According to a memorandum sent by Jerry McDaniel, Director of the Governor's Office on Policy and Budget; Cynthia Kelly, Staff Director, Senate Fiscal Policy and Calendar Committee and Mike Hanson, Budget Director, House Policy and Budget Council, the actual revenue collections since the March Revenue Estimating Conference will not be sufficient to support the current budget. By mid July agencies received specific target amounts of reductions from the Governor's Office of Policy and Budget and last week they were tasked with presenting these proposed cuts to the legislature. Every agency had to complete a Schedule VIIB-1 "Priority List of Recurring Budget Issues for Possible Reductions" to identify recurring reductions. Any reduction must be program/issue specific and can not be across-the-board percentage reductions to achieve the target. All agencies had to evaluate all programs and services and they should seriously consider reducing programs and services which do not achieve a sufficient level of performance. Every agency was asked

to show reductions of 4% and 10% for the legislature to consider. It seems as though the House and the Senate have different ideas on how to solve this budget crisis. The Senate is looking at a 4% reduction of all agencies across the board but the House wants to look at each program and cut only those who have not performed well or could afford a reduction in funding and still provide the same level of service.

Below we have some of the agency reductions that may affect the business community:

Agency for Health Care (AHCA):

The AHCA has proposed to save \$159 million by a 4% across the board in rates for hospitals, pharmacies, HMOs and nursing homes. \$45 million would come from nursing homes. Additionally, they have proposed to save \$75 million by increasing county contributions for Medicaid nursing home care from \$55 per month to \$189 per month.

AHCA has also proposed to eliminate \$625,000 in funding for the state teaching nursing home and they have proposed to save \$332,000 by delaying the implementation of Florida Senior Care. While Secretary Agwunobi said AHCA is committed to its implementation, Tom Arnold says that the changes made by the Legislature in the last session makes the program less effective.

Also proposed is assessing a un-enrollment fee on Nursing Home Diversion Program providers when a member leaves the program and enters a nursing home. This idea would save about \$5.2 million but AHCA has said it may withdraw this proposal.

Agency for Workforce Innovation:

The Agency for Workforce Innovation (AWI) is Florida's lead state workforce agency and directly administers the state's Labor Market Statistics program, Unemployment Compensation, Early Learning and various workforce development programs. The Office of Early Learning, a division within the agency, provides oversight of Florida's school readiness programs and is the lead entity for implementing the state's successful Voluntary Pre-Kindergarten program. The majority of AWI reductions are in the Office of Early Learning; the School Readiness Program and the funding to Regional Workforce Boards.

Department of Agriculture and Consumer Services:

The Department of Agriculture and Consumer Services (DOACS) is responsible for supporting Florida's agriculture economy while ensuring safety to consumers through testing and inspections; protecting consumers from unfair and deceptive business practices and providing consumer information; conserving and protecting the state's agricultural and natural resources by reducing wildfires, promoting environmentally safe agricultural practices, and managing public lands. DOACS has established the following Divisions to direct its functions: Administration, Animal Industry, Plant Industry, Marketing and Development, Dairy Industry, Agricultural Environmental Services, Food Safety, Fruit and Vegetables, Consumer Services, Forestry, Standards, Aquaculture and Licensing. Commissioner Charlie Bronson offered many cuts, most dealing with positions that have not been filled, reductions in travel and office expenses in marketing, and closing five regional offices in the Division of Licensing. He also wants to increase certain fees such as the Food Store Inspection Fee Cap from \$500 to \$650 to make the fee more equitable based on inspection time, the Pesticide Brand Registration Fee from \$250 to \$350, Fertilizer Inspection Fee from \$0.75/ton to \$1.00/ton, Feed Master Registration Fee increased by \$15 a year up to \$1,000 per year, and Pesticide Applicator Fee to from \$160 to \$250 for commercial and from \$60 to \$100 for public & private pesticide applicators.

Department of Business and Professional Regulation:

The Department of Business and Professional Regulation (DBPR) is responsible for both Professional Regulation and Business Regulation such as Architects and Interior Designer; Construction Industry; Certified Public Accountants; Real Estate; Employee Leasing; Alcoholic Beverages and Tobacco; Condominiums, Land Sales and Mobile Homes; Hotels and Restaurants, and Pari-Mutuel Wagering to

name a few. Secretary Holly Benson proposed cuts in personnel, cell and blackberries for staff, and mailing of notices.

Department of Community Affairs:

The Department of Community Affairs (DCA) assists Florida communities in meeting the challenges of growth, reducing the effects of disease and investing in community revitalization. DCA is proposing cuts in funding to Regional Planning Councils; the Century Commission and the Front Porch Program. The cut in funding to the Century Commission will require a substantial reduction of travel, meetings, research and other associated expenditures.

Department of Environmental Protection:

The Florida Department of Environmental Protection (DEP) is the lead agency in state government for environmental management and stewardship. DEP is one of the more diverse agencies in state government, protecting Florida's air, water and land. It is divided into three primary areas: Regulatory Programs, Land and Recreation and Planning and Management. DEP major program areas are: Public Health & Environmental Protection; Public Lands and Recreation and Agency Services. They offered reductions in Beach Projects, the Petroleum Tank Clean-up, and Control of Invasive Exotics (plants).

Department of Financial Services:

The Department of Financial Services (DFS) has offered reduction in staff, consolidation and/or elimination of field offices, consolidation of Tallahassee office space and consolidation of Call Center Units. DFS has also offered reductions in several workers compensation areas including the Workers Compensation Research Institute, Workers Compensation Special Disability Program, Workers Compensation Staff Augmentation Contracts, and the Workers Compensation Reduction in Operating Appropriation. DFS saved millions by canceling the Aspire project that was a failed attempt to integrate the state payroll system.

Department of Highway Safety and Motor Vehicles:

The Department of Highway Safety and Motor Vehicles (DHSMV) is in charge of driver license; motor vehicle titles and the Florida Highway Patrol. Some of the DHSMV reductions include elimination of positions including trooper positions and overtime for FHP.

Department of Juvenile Justice:

The Department of Juvenile Justice (DJJ) has a mission to increase public safety by reducing juvenile delinquency through effective prevention, intervention and treatment services that strengthen families and turn around the lives of trouble youth. Secretary Walt McNeil offered the following cuts to DJJ budget: elimination of outsourced substance abuse services that are not statewide contracts, reduction of outsourced mental health services that are not statewide contracts, elimination of certain detention centers and the reduction in non-secure as well as secure residential services.

Department of Management Services:

The Department of Management Services (DMS) is the administrative agency for Florida Government. DMS supports human resource management, retirement benefits, health benefits, real estate management, specialized services, state purchasing and technology. Some of the cuts offered by DMS included the elimination of the Office of Efficient Government (10 positions and \$1.75 M) and a 33% reduction to the MyFlorida Web Portal. The Office of Efficient Government supports the Council of Efficient Government which was created in 2006. The mission of the Council is to review, evaluate and provide advice on agency outsourcing and best practices, as well as to codify lessons learned to improve government accountability. It is the Council's goal to define the process for reviewing business cases and implement standard processes for outsourcing initiatives.

Department of Revenue:

The Department of Revenue (DOR) is the tax collection agency for Florida. DOR has three programs: General Tax Administration, Property Tax Administration, and Child Support. Many of the cuts proposed by DOR were to eliminate positions that currently are not filled. One of the suggestions under the General Tax Administration Program that could save money was to require all taxpayer filings to be submitted electronically. This has been offered over the past few years, but Florida has many small businesses that do not have computer systems. These small business owners have opposed this change in the past. Under the Property Tax Administration Program, DOR would like to reduce contracts related to property tax litigation and eliminate some positions. Rep. Frank Attkisson (R-Kissimmee) expressed interest in eliminating some of the expenses related to Special Masters for property tax challenges as he would like to see the Value Adjustment Board system reformed.

Department of State:

The Department of State (DOS) consists of Office of the Secretary and the Divisions of Administrative Services, Corporations, Cultural Affairs, Elections, Historical Resources, and Library, Archives and Information Services. One of the department's reductions was to the petition signature verification reimbursement. However, this reduction will not affect the current process of verification.

Department of Transportation:

Included in the Florida Department of Transportation's (FDOT) cuts were a \$10 million decrease in dollars they provide to the Office of Tourism, Trade and Economic Development (OTTED). The money, known as OTTED's road fund, is primarily used to make transportation improvements as an incentive to business relocations. The biggest share of FDOT cuts (\$58.5 million) could come at the expense of three programs designed to help counties, the County Incentive Grant Program, the Small County Outreach Program, and the Small County Road Assistance Program.

In total, FDOT Secretary Stephanie Kopelousos presented nearly \$80 million worth of cuts that she said were valuable programs but not within the core mission of her department. Secretary Kopelousos also took the opportunity to tell legislators that the budget exercise is not the only crisis facing FDOT this year. She anticipates the cost of aggregate, the material used to make roads, will likely increase by approximately thirty percent this year. In addition, she said that long term transportation funding is a pending problem that needs to be examined. Revenues are continually dropping because of more fuel efficient cars that use less gas and therefore pay less gas tax. Kopelousos concluded her remarks with a warning to legislators about Florida continuing to be a donor state to the federal government and advised them that Congress is considering a new bridge repair and replacement program that would make the situation worse. It is proposed in response to the collapse of a bridge recently in Minnesota. Under one version, the gas tax would be raised to fund the plan and the Secretary says Florida would be expected to send around \$430 million to Washington and would get approximately \$27 million back.

Economic Development:

The Office of Tourism, Trade and Economic Development (OTTED) also presented a list of cuts, but with very little detail. Representatives Rich Glorioso (R-Plant City) and Susan Bucher (D-West Palm Beach) both expressed frustration with the lack of information and Representative Dean Cannon, Chairman of The Economic Expansion and Infrastructure Council, agreed. He requested that OTTED go back and gather more data on the potential impacts of their proposed cuts. Under the OTTED plan Tourism dollars would be cut by \$1.8 million. The Innovation Incentives Fund would be reduced by \$967,477. The Florida Sports Foundation would lose \$433,784 and Enterprise Florida's budget would be reduced by \$490,000.

Office of Insurance Regulation:

The Office of Insurance Regulation (OIR) offered reductions by shifting certain expenses, such as the Public Hurricane Model (where residential property insurers and licensed rating and advisory

organizations are required to compile property insurance loss data) to the private sector. FIU is under contract with OIR to continue to develop, maintain and support the Model and to provide model related services. OIR believes the residential property insurers and licensed rating and advisory organizations should pay the cost of running their rate filings through the Model instead of the State of Florida. The current cost of the maintenance and support of the Public Hurricane Model is \$623,512 which would be shifted to the industry. Other reductions include announcements for public rate hearings and changes to some of the licensing procedures.

Public Service Commission:

The Florida Public Service Commission (PSC) presentation was interesting as they gave a list of its proposed budget cuts, but then told the legislature how these proposed cuts would negatively affect the public. For example, the PSC has “Competitive Market Oversight” which involves facilitating the development of competitive markets, where directed by statute, and addressing issues associated with those markets. The PSC offered reductions or eliminations in this area, but was quick to point out that competitors may be disadvantaged and ultimately leave the market making the industry less competitive and that consumers may pay higher prices as a result of less competition. They did the same for the “Rate Base/Economic Regulation” reductions by pointing out that consumers may pay higher rates as a result of over earnings not being detected or face discriminatory rates as a result of eliminating reviews. According to the PSC, reductions in the “Consumer Protection, Safety and Assistance” program may cause consumers poorer service quality and may be harmed by the reduction in service evaluations and safety inspections.

Unfortunately, all agencies stated that they would delay purchasing IT equipment and many are delaying the purchase of new vehicles as well.

Climate Change

The Governor’s Action Team on Energy and Climate Change held its first meeting last week. This 21 member Commission, all appointed by Governor Charlie Crist (R), was created to develop a comprehensive Energy and Climate Action Plan that will fully achieve or surpass the statewide targets for greenhouse gas reductions as specified in Executive Order 07-127. The Executive Order has statewide greenhouse gas emissions reduction targets by 2017, to reduce greenhouse gas emissions to 2000 levels; by 2025, to reduce greenhouse gas emissions to 1990 levels; and by 2050, to reduce greenhouse gas emission by 80% of 1990 levels.

The Chair of the Action Team is the Department of Environmental Protection (DEP) Secretary Mike Sole. The Vice Chair is the Mayor of City of St. Petersburg, Rick Baker. Christopher Kise is an Ex Officio member of the Commission and will be representing the Governor’s Office. Other members of this diverse group include:

- Chair of the Florida Public Service Commission: Chairperson Lisa Edgar
- Four Members of the Florida Legislature: Senator Jeff Atwater (R-North Palm Beach); Senator Al Lawson (D-Tallahassee); Representative Stan Mayfield (R-Vero Beach) and Representative Dan Gelber (D-Miami Beach)
- Consumer Advocate: Jack Shreve, Senior Counsel to the Governor
- Five Representatives of the Environmental Community: Manley Fuller, Florida Wildlife Federation; David Guest, Earthjustice; Debbie Harrison, World Wildlife Fund; Gerald Karnas, Environmental Defense; and Charles Pattison, 1000 Friends of Florida
- Three Representatives of the Business Community: Jerry Montgomery, Senior Vice President, Conservation & Environmental Sustainability, Disney; Mark Kaplan, Vice President, Mosaic Fertilizer LLC; and Kathleen Shanahan, Chief Executive Officer, WRS Infrastructure & Environment Inc.

- Chair of the Energy Commission: Chairman Tommy Boroughs
- Three Members of the Academic Community: Dr. Lonnie Ingram, Professor of Microbiology, Institute of Food and Agricultural Sciences, University of Florida; Camille Coley, Executive Assistant Vice President for Research, Florida Atlantic University and Dr. James Fenton, Florida Solar Energy Center, University of Central Florida
- One Representative of the Utilities Industry: Armando Olivera, President, FPL Group

According to Mr. Kise, the Governor deliberately selected a diverse group to serve on this team so that they would think “outside the box.” He also told the Commission that the Governor has a plaque on his desk that states “It Can Be Done” and the Governor believes Florida can make changes.

Staff for the Action Team will come from DEP. Stephen Adams, Director of Planning and Strategic Projects for DEP will serve as staff director. Other staff members from Office of Strategic Projects & Planning who will be working with the Action Team include Andrew Collins, Senior Executive Assistant and Andrea Walker, Administrative Assistant. Also Jeremy Susac, the new Director of the Florida Energy Office will be actively involved as well.

After introductions of the Action Team and a briefing on operating guidelines, ethics and the open government process, Secretary Sole reviewed the “Action Team Charge” which gives the members a plan of action to complete their task as designated in the Executive Order. The Action Team has until November 1, 2007 to issue recommendations including any necessary legislative initiatives to address the following:

1. Strategies and mechanisms for the consolidation and coordination of energy policy in Florida;
2. Additional greenhouse gas emission reduction strategies beyond those directed in Executive Order 07-127, as well as overall blueprint for development of action;
3. Policies to enhance energy efficiency and conservation, including statewide targets;
4. Market-based regulatory mechanisms, such as cap and trade programs, for use in efficiently reducing greenhouse gas emissions;
5. Strategies to diversify Florida’s electric generation fuels to reduce greenhouse gas emissions and protect Florida’s consumers from fuel price volatility;
6. Policies for emission reporting and registry that measure and document emission reductions;
7. Strategies for reducing the greenhouse gas emissions from motor vehicles;
8. Strategies for increasing the amount of renewable transportation fuels and for reducing the carbon content of fuels, such as a low carbon fuel standard;
9. Policies to reduce greenhouse gas emissions from state and local governments not addressed in Executive Order 07-126;
10. Policies to reward early emission reductions in advance of statewide or national greenhouse gas regulatory programs; and
11. Other policies for efficiently reducing emissions in Florida in conjunction with, or independent of regional, national, or international agreements.

Mr. Adams gave a presentation to the Commission on “Florida’s Greenhouse Gas Inventory and Policy Actions to Date.” He explained Executive Order 07-127 which directed DEP to:

- Adopt maximum allowable emissions levels of greenhouse gases for electric utilities in the State of Florida
- Adopt the California motor vehicle emission standards in Title 13 of the California Code of Regulations, upon approval by the U.S. Environmental Protection Agency of the pending waiver; and

- Adopt a statewide diesel engine idle reduction standard

DEP has already held initial rule workshops on these areas.

The Executive Order directed the Department of Community Affairs to:

- Convene the Florida Building Commission for the purpose of revising the Florida Energy Code for Building Construction to increase the energy performance of new construction in Florida by at least 15% from the 2007 Energy Code. The Commission should consider incorporating standards for appliances and standard lighting in the Florida Energy Code. Target implementation date for revised code is January 1, 2009;
- Initiative rulemaking of the Florida Energy Conservation Standards, Chapter 9B-44, Florida Administrative Code, with an objective to increase the efficiency of appliances authorized under s. 553.957, Florida Statutes, by 15% from current standards for implementation by July 1, 2009

The final part of the Executive Order directed the Florida Public Service Commission to:

- Require that utilities produce at least 20% of their electricity from renewable sources (Renewable Portfolio Standard) with a strong focus on solar and wind energy;
- Reduce the cost of connecting solar and other renewable energy technologies to Florida's power grid by adopting the Institute of Electrical and Electronics Engineers (IEEE) Standard 1547 for Interconnecting Distributed Resources with Electric Power Systems as the uniform statewide interconnections standard for all utilities; and
- Authorize a uniform, statewide method to enable residential and commercial customers who generate electricity from on-site renewable technologies of up to 1 megawatt in capacity to offset their consumption over a billing period by allowing their electric meters to turn backwards when they generate electricity (net metering).

The PSC has already held workshop and is reviewing these areas from the Executive Order.

Before the formal presentations, Secretary Sole informed the Commission that DEP is already working on rulemaking for a cap and trade system. He wants to make sure that DEP does not include a "bad trade." Secretary Sole gave the example of China switching from refrigeration systems banned in the United States to new standards ones and received a \$1 billion carbon credit. He felt as though that was business as usual and does not want efficiency to be used as an offset. When Secretary Sole spoke of renewables, he said, "Send the right prices, people will do the right thing!" Secretary Sole said even the small is relevant when it involves reduction of greenhouse gas emissions.

There were three presentations in the afternoon:

- "A Primer on Market-Based Policies for Emissions Reductions" by Paul M. Sotkiewicz, PhD. – Public Utility Research Center at the University of Florida
- "Emissions Trading in Action: Key Lessons from Other Programs" by Judi Greenwald, Director of Innovative Solutions – Pew Center on Global Climate Change
- "Greenhouse Gas Offsets: Their Importance and Role in a Cap-and-Trade System" by Mike Burnet, Executive Director for the Climate Trust

(For a copy of the presentations, you can go to www.dep.state.fl.us/climatechange)

All of the presentations touched on the cap and trade program on lowering greenhouse gas emission and different ideas on how to accomplish the program.

The next meeting of the Action Team has been tentatively scheduled for Tuesday, September 18, where they will continue the discussion of Electric Power Generation Sector. They will discuss market based solutions and the reporting and registry of greenhouse gas emission. DEP does not have a registry; they have only an analysis entitled "Preliminary Inventory of Florida Greenhouse Gas Emissions: 1990-2003" which was compiled by DEP – Division of Air Resource Management.

The Action Team has tentatively scheduled a meeting for the week of October 1 to discuss the Transportation Sector looking at the California Emission Standards and what more could be done to promote renewable fuels.

The last meeting before the November 1 deadline will be during the week of October 22 where the Commission is charged to look beyond the Executive Order and begin to create the overall blueprint for Florida. The second part of the Action Team's charge is to issue recommendations by October 1, 2008 including any necessary legislative initiatives to address the following:

1. Adaptation strategies to combat adverse impacts to society, public health, the economy, and natural communities in Florida;
2. Policies to reduce the increase in greenhouse gas emissions from new growth;
3. Carbon capture and storage technologies;
4. Land use and management policies that improve the long-term storage of carbon in Florida's biomass;
5. Strategic investments and public-private partnerships in Florida to spur economic development around climate-friendly industries and economic activity that reduces emissions in Florida; and
6. Strategies and mechanisms for the long-term coordination of Florida's public policy in the areas of economic development, university based research and technology development, energy, environmental protection, natural resource management, growth management, transportation, and other areas as needed to assure a future of prosperity for Floridians in reducing greenhouse gas emissions.

AIF will continue to follow the Governor's Action Team on Energy and Climate Change to make sure there is a balance approach on protecting Florida's environment while promoting economic growth.