

## **Floridians Face New Taxes & Fees**

Feeling the burden of historic budget woes, lawmakers began their annual meeting on Tuesday Mar. 3rd with the specter of overseeing spending cuts that could touch nearly every Floridian.

The potential fallout of three years of plummeting tax revenues:

Closing schools and ending the mandate to limit class sizes.

Tuition increases of 15 percent at universities that are accepting fewer students.

Taxes or fees on everything from bottled water to cigarettes to driver's licenses.

And most precariously, dramatically reduced programs for health care programs that serve the poorest Floridians.

In his State of the State address, Gov. Charlie Crist sought to assure Floridians that the \$12.2 billion coming to Florida over the next three years from the federal stimulus package would stave off repercussions of the economic collapse.

"This money will help us avoid tax increases and prevent deep cuts that would further burden Florida's families and businesses," said Crist to lawmakers. "Some argue the politics of the federal stimulus plan. I understand that. My friends, while our people worry, we cannot put politics over their needs."

Crist offered no new major incentives in his speech, instead pushing lawmakers to approve his previous \$1.3 billion deal to buy U.S. Sugar to protect the Everglades and his agreement with the Seminole Indians to allow their expanded gambling in exchange for hundreds of millions of dollars.

His overriding message was a metaphorical message of hope.

"We must lift from our shoulders fear and pessimism and take up the mantle of persistence and determination to make the coming year better than the last," said Crist.

Lawmakers said the federal stimulus package has become an unrealistic panacea for Floridians who may not be ready to accept an era of state government austerity.

The state's budget has already plummeted by nearly \$7 billion to around \$66 billion as tax revenues drop for an unprecedented three straight years.

For now, most of those cuts have been absorbed by trimming vacant positions, raising fees on things like boating licenses and court access, and borrowing from savings accounts set aside for other purposes.

But with tax revenue falling hundreds of millions of dollars below expectations in the past few months, lawmakers said that next year could bring at least another \$5 billion budget hole that, if unchecked, would drop the state's annual budget to near \$60 billion. Lawmakers said Tuesday that it would take at least a few weeks to determine if Crist's promise that \$4.7 billion of federal stimulus money could fill next year's budget.

## **Gov. Charlie Crist's State of the State address**

March 3, 2009

"For the nearly 20 million people who choose to call Florida home, to not just raise their children and build their businesses, but to truly live out their dreams; the future is now.

"The strength of our state and national economies are being tested in ways not seen in decades: unemployment is at a 16-year high. We are in a national housing crisis and foreclosures continue to rise; businesses are shutting their doors in the communities they have long served; and a weakened Wall Street has left us in a credit crunch that is cutting into hardworking families' nest eggs and college savings. Our people are struggling, as a state and as a nation. And like never before, we have an obligation to serve them well.

"The state of our state may be challenged today, but my friends, the determination of our people is stronger than ever.

"Because I believe that with every crisis comes opportunity. We gather here tonight with the tools and the resolve — the opportunity — to preserve investments in our students and teachers, the opportunity to preserve investments in the safety and security of our people, in the health and well-being of the most vulnerable among us — and the opportunity to preserve our investments in the very reasons government exists to serve.

"Since I took office two years ago, we have cut state spending by \$7 billion, lowered property taxes by an estimated \$25 billion over five years and created innovative no-cost solutions like the Florida Discount Drug Card and Cover Florida. In fact, the CATO institute has recognized our state as the most fiscally responsible in the nation. And while we have taken these prudent steps, tough decisions lie ahead. We are going to have to work to make people our priority and to spend their money wisely while continuing to lessen their tax burden.

"Ten days ago I sent to you a budget recommendation that addresses the people's priorities for our future. The \$66 billion plan includes more than \$10 billion for infrastructure improvements in transportation and economic development — including Central Florida's commuter rail; a \$21 billion investment in our students and teachers; more than \$2 billion to protect and preserve Florida's natural resources; nearly \$5 billion to keep our people and our neighborhoods safe — the most critical function of government; and more than \$25 billion to fund critical health care services for our citizens.

"I am grateful for Florida's share of the federal stimulus bill. These funds will serve as a bridge to better economic times. This money will help us avoid tax increases and prevent deep cuts that would further burden Florida's families and businesses. The Federal Stimulus bill is not perfect; I've never seen a bill that is. But, this package will provide much needed tax relief, as well as immediate assistance in education, transportation, unemployment compensation, renewable energy and other aid and is expected to save or create as many as 206,000 jobs that the people of Florida desperately need. Of the more than \$12 billion our

state will receive over three years our budget proposes using nearly \$5 billion next year.

"Our administration looks forward to working with this Legislature, our cities and counties to begin implementing these dollars quickly and efficiently. I'm proud to announce that Don Winstead, a long-time public servant and deputy secretary of the Department of Children and Families, will serve as Special Advisor to the Governor for the Implementation of the American Recovery Act.

"We must use every dollar available to us to adequately fund education, and I again call upon this Legislature to quickly approve the Compact between the state of Florida and the Seminole Tribe. Approval will release at least \$2.5 billion over 25 years to help educate our children. Approval of the Compact will preserve and create thousands of jobs for Floridians and will safeguard us against the expansion of gambling to every corner of our state. Failure to act will take the process out of our hands, and may lead to the loss of all revenues. Whether you are for or against gaming, the Compact makes sense and deserves your support.

"There is no doubt, that for our economy to recover, we must get people back to work. In the past several weeks I have visited with Floridians at seven unemployment offices across our state. I have looked into their eyes and I saw worry. I saw good, honest people who desperately want the opportunity to help themselves. Some argue the politics of the federal stimulus plan. My friends, while our people worry, we cannot put politics over their needs — the needs of our students and teachers, the sick and the infirm, or those out of work. We should not ask what it means to be Republican nor should we ask what it means to be Democrat; but rather what a good human being is supposed to do. In each and every one of us is the hope of the millions who sent us here. We must honor that sacred trust, to put them first.

"To help our workforce adapt to a changing economy, I recommend \$2 billion in workforce investments. These initiatives include over \$800 million for career education and employment services that will retain 3,000 jobs. They also include the School Readiness program, which helps preschoolers develop the skills they need to succeed in kindergarten and beyond — and helps parents maintain employment and achieve financial independence. An investment of \$621 million in getting the next generation off to a good academic start will retain more than 12,800 jobs for child-care providers and allow families to remain in the workforce. \$6.6 million for Ready to Work will ensure job-seekers of all ages have the skills needed for most jobs today, giving them an edge with employers — in Florida, and nationwide.

"Employers like Shands Jacksonville and Lockheed Martin rely on Ready to Work because it ensures high-quality applicants. They have reduced turnover among new employees, as well as their hiring and training costs; and are giving long-time employees the opportunity to learn more — and earn more.

"Perhaps, the ingenuity of Floridians is no better represented than in the creativity and entrepreneurial spirit of our state's business community. Small business owners, in particular, are embracing the challenges of the economy, driven by a hope for prosperity. They are inspired by a vision of a better way of life for their families and their employees.

"We must reward — not penalize or stifle — innovation and productivity in our business community. As we pursue our efforts in this Legislative Session, let us remember that the circle of prosperity in the Sunshine State begins with business.

"To this end, our Office of Tourism, Trade and Economic Development, working with its public/private

partnerships, helps jump-start high-potential business sectors throughout our state. As a result, Florida's sports industry has grown to a \$36-billion-a-year business sector — film and entertainment, nearly \$18 billion a year — and international trade, \$130 billion in 2008 alone. More than 550 aerospace companies call Florida home, securing the Sunshine State's place as a leader in space. With more than 600 biotech pharmaceutical and medical companies and a foundation of nearly 40,000 health care facilities, Florida's life sciences cluster continues to gain critical mass.

"Our goal is to create a business environment where productivity and growth flourish — and to create quality, high-paying jobs. My recommendation for the Quick Action Closing Fund invests \$45 million to attract and retain industries, aimed at providing more than 17,000 high-wage jobs.

"We look ahead to strengthen our economic development efforts and embrace the success of companies who already call Florida home. While we seek a return to the enduring principles of smart lending to restore the flow of capital and credit into our business communities, we must lift from our shoulders fear and pessimism and take up the mantle of persistence and determination to make the coming year better than the last. And we must do so with the realization that our actions today affect every future generation.

"So, for our precious children, the future is now.

"We must build on the foundation of accountability laid by my predecessor that has taken Florida's schools from 31st in the nation in 2007 to 10th in the nation today. More of our students are graduating than ever before, with our African-American and Hispanic students showing some of the greatest gains. I urge you to pass legislation requiring school districts to spend 70 percent of their budgets in the classroom for our students and teachers, and to instill transparency by requiring school districts to provide dollar-by-dollar details online. Floridians deserve to know how their hard-earned dollars are being spent, and parents have a right to demand accountability. And I ask you to consider, as I have proposed, increasing per-student funding — Florida's children deserve it.

"We must also renew our commitment to higher education. The strength of Florida's economy is dependent upon a workforce able to compete in an increasingly global economy. Our 28 community colleges are already recognized as the number one in the U.S. and I am committed to giving our universities the resources they need to be among the best in the nation. I am as committed as ever to keeping our schools affordable, but we must also enable them to achieve excellence.

"These reforms cannot wait. The doctors, nurses, entrepreneurs and engineers of tomorrow are sitting in our grade school classrooms, and walking our college campuses right now. For them, the future is now.

"And for Florida's beautiful environment, the future is now.

"From sugar-sand beaches and coral reefs, to crystal clear springs and rivers among lush forests, all with glorious sunrises and amazing sunsets. We must take action in our lifetime to protect these treasures, or future generations will not experience the Florida we know and love.

"Now more than ever, we have before us a historic opportunity to save America's Everglades so that students and teachers can learn from this living classroom — a place known throughout the world as a true

wonder, a mosaic of freshwater ponds, prairies and forested uplands.

"We have taken the first steps toward what promises to be a historic move to save our Everglades. This move is as significant as the creation of the Everglades National Park itself. By acquiring nearly 300 square miles, we can reconnect Lake Okeechobee to the Park; allowing us to clean, move and store water and protect the coastal estuaries. We have a once in a lifetime opportunity before us now.

"This administration is committed to a diverse energy supply that balances solar, wind and nuclear. Last year's energy bill was made possible by the strong support of our departed friend Representative Stan Mayfield. Stan's vision for Florida continues. Thank you, Representative Debbie Mayfield for your courage and leadership in seeing Stan's vision. We have a chance to diversify our energy supply and I urge the members in this chamber to pass this important legislation.

"We must remember that the strength of our state is not in the might of our laws or the power of our bully pulpits, but in our ability to protect the hopes and dreams of the very people we serve.

"The future is now, my friends, and if we endeavor to strengthen and diversify our economy by capitalizing on the opportunities before us; if we seek to preserve God's majestic creation for generations to come; if we believe today's students can flourish as tomorrow's leaders, and if we hope to preserve the promise of the future for all Floridians — then we must come together as never before.

"We must commit to one another and to each and every Floridian that we will work toward more than just the perception of bipartisanship, but strive to seek honest-to-goodness cooperation. There will be disagreements and differences of opinion, and that is the mark of a healthy democracy. But we have to be willing to put solutions above who gets the credit, and results above individual gain. People are counting on us, and for those of you who wish to keep score, I ask you to mark your wins and losses not for our parties, but for the people we serve.

"Each of us in this chamber tonight remembers the moment we first decided to run for office, to aspire to be public servants. We are going to have to dig, and I mean really dig deep, for the hope and the optimism and the determination that inspired you to put your name on a ballot and declare to the people of this state, you deserve their vote!" They sent us here through a sacred trust and we'd better fight to earn every bit of it over the next 60 days, because the future is now and the people we serve are counting on us to work — not for the next election — but for them and for Florida's next generation.

"May God bless you and may he continue to bless our beautiful Florida."

## Healthcare, Obama Style

President Obama is launching his massive healthcare overhaul this Month determined not to repeat mistakes made in a similarly ambitious bid by the Clinton administration 16 years ago.

The president formally nominated Kansas Gov. Kathleen Sebelius (D) to lead the effort as his Health and Human Services (HHS) secretary, and he will host a slew of lawmakers, interest groups and healthcare experts for a White House summit on health reform Thursday.

With these steps, Obama wades into an issue that could define his presidency, setting forth an agenda that is wide in its scope and has been attempted by some of his predecessors in the past 60 years, sometimes to the detriment of their legacies.

“There’s no easy formula for fixing our healthcare system,” Obama said Monday at a press conference with Sebelius. “There will be many different opinions and ideas about how to achieve this reform. And that’s why I’m bringing together business and labor, doctors and insurers, Democrats and Republicans, as well as ordinary Americans from all walks of life to the White House this Thursday.” The failure of President Clinton’s similarly grand first-term campaign on health reform remains fresh in Washington’s political memory.

Critics, including Democrats, lambasted Clinton and then-first lady Hillary Rodham Clinton for not adequately including Congress, interest groups and the public in their administration’s planning on healthcare. Clinton, these critics say, also waited too long to begin his push on reform, which started in the latter part of his first year in office.

Obama is trying to show he’s learned from those mistakes, and the summit is a part of that effort.

“The summit is an excellent way to really start this process in a participatory manner,” said Ron Pollack, executive director of the liberal healthcare advocacy group Families USA. “It’s obviously not the be-all and end-all,” however, he stressed. “It’s not the place where the important decisions will be made.”

The president and his senior aides have deliberately left many key questions unanswered, even though Obama campaigned on a platform that included a framework for health reform. His administration is deferring to Congress to work out the sticky details.

Key Democrats on Capitol Hill, such as Sens. Edward Kennedy (Mass.) and Max Baucus (Mont.), have been working together and with a broad array of interest groups since last year to set the stage for reform.

Independent groups representing a range of points of view have also been working on their own during that time to shore up support on broad principles of health reform.

The early weeks of Obama’s presidency have been occupied with the struggling economy and the

damaged financial system — not healthcare.

Still, Obama has insisted health reform is a 2009 priority, as have his congressional allies and reform-minded constituencies ranging from big business to organized labor to a variety of healthcare interests.

Just one month ago, that timeline — already optimistic — seemed in serious jeopardy when former Sen. Tom Daschle (D-S.D.), Obama's first HHS nominee and health czar, had to withdraw over unpaid taxes.

With this week's nominations and summit, Obama is sending the clear signal that he and his administration are now fully engaged in healthcare.

"He's got his momentum back," said Donna Shalala, President Clinton's HHS secretary.

Besides formally nominating Sebelius on Monday, Obama also named a new director of his White House Office of Health Reform, former Clinton appointee Nancy-Ann DeParle.

Obama also has managed to stay on schedule: Before Daschle departed, March was understood to be the month when the White House would ramp up its work on healthcare.

The Obama administration, in office less than two months, already has taken some steps on healthcare, as the president emphasized in his introduction of Sebelius.

"We have already done more to advance the cause of healthcare reform in the last month than we have in the last decade," Obama said, taking credit for an expansion of the State Children's Health Insurance Program and the billions of dollars for healthcare included in the economic stimulus bill.

Obama highlighted the need for health reform during an address before a joint session of Congress last week and released a budget that would set aside \$633.8 billion for health reform.

"The president wants to get going or he wouldn't have put that much money in the budget. He's ready to go," said Shalala, now the president of the University of Miami.

"We are at the perfect place to get this job done," said Anna Burger, the secretary-treasurer of the Service Employees International Union.

But by putting his healthcare team in place at the White House and at HHS and by standing up at a White House event dedicated solely to the issue, Obama puts himself on the frontlines of a battle that Democrats in Congress and interest groups across the spectrum have been working toward for months or even years.

"There's been a lot of good work that's been done," said Business Roundtable President John Castellani, "but ultimately the power and the direction that's very, very important is the president of the United States."

"We're formally starting out the health reform process, but leading up to it there's been a lot of preparation," Pollack said.

## **President Obama's tax plan**

There will be winners and losers if Congress approves President Obama's tax plan, and the more you make, the bigger a loser you'll be.

Obama's broad proposal is to pay for healthcare reform and blue-collar tax breaks by raising taxes on wealthier families and individuals. The Tax Policy Center estimates the increased taxes on the rich would raise roughly \$1 trillion over the next decade.

The rich are defined as individuals making more than \$200,000, and couples who earn more than \$250,000. People above those income thresholds would pay a higher tax rate beginning in 2011, and would see deductions on mortgage interest payments and charitable contributions reduced sooner.

Following is a rough breakdown by income bracket of the impact of Obama's tax proposals based on calculations made by Deloitte Tax. Keep in mind that presidential budget proposals are considered a starting point by Congress and almost never emerge unscathed.

The changes in deductions could be particularly difficult to sell to lawmakers, given the arguments charitable groups and the housing and realty industries are likely to make. Keefe Bruyette & Woods's Brian Gardner in a research note Friday morning predicted the chances that these measures would be approved are slim.

### **A family with household income of \$500,000**

Individuals and couples in the highest tax bracket (taxable incomes higher than \$357,000) face three substantial tax hikes from Obama's plan.

Initially, they would be hit by Obama's proposal to cap itemized deductions at 28 percent, down from 39.6 percent. For the wealthy, that would be quite a hit, although Howard Gleckman, in a post on his blog at the Tax Policy Center, noted that many people who would be affected by this change are already hit by the Alternative Minimum Tax (AMT), which limited deductions to 28 percent of taxable income.

Those in the upper bracket would also see their tax rate jump, though not until 2011. The upper tax rate would rise back to 39.6 percent from 35, where it stood before the 2001 tax cuts enacted by President Bush.

The rate on long-term capital gains for individuals making more than \$200,000 and couples earning more than \$250,000 would also jump from 15 percent to 20.

According to Deloitte Tax, a married couple with two young children would pay \$120,400 under today's tax law. Under the Obama budget, their tax would rise about \$1,000 a month, to \$131,700.

An individual with a \$500,000 income would see his or her tax bill rise much more. That taxpayer would

owe \$19,200 more in taxes, as his/her tax bill would rise from \$121,500 to \$140,700.

### **A family with taxable income of \$300,000**

Obama's tax plan is a bit harder to judge for families in this income range because of the AMT, which Obama patched for another year in the stimulus bill.

A family with \$300,000 income also would be hit by the changes in itemized deductions and capital gains, and in 2011 would see its tax rate rise to 36 percent from 33.

However, because they would no longer owe the AMT, a couple with two children would owe just \$1,100 in additional taxes after the budget, compared to an additional \$5,000 for an individual making \$300,000, according to Deloitte Tax.

If it is assumed that the taxpayer would not be subject to the AMT, Deloitte estimates the couple's tax increase would rise \$4,600. An individual not subject to the AMT would see a tax hike of \$7,500

### **A family with \$150,000 in taxable income**

Most families with incomes under \$200,000 would not see their taxes rise, but a family with around \$180,000 in taxable income might not see much of an advantage from Obama's "make work pay" tax cut, either.

Obama's budget would make that tax cut permanent, but it begins to phase out for couples earning more than \$150,000. As a result, families in this tax bracket range might not see much of a change in their taxes.

But a family paying for a college student's tuition could see their tax bill drop significantly through the American Opportunity Tax Credit. A married couple with two children, including one child using tax credits in the stimulus for college, could see their tax bill drop by \$6,800, the firm estimated.

### **An individual with \$125,000 in household income**

This individual would see no tax liability change, according to Deloitte's calculations. The "make work pay" tax cut gradually phases out for individuals making at least \$75,000.

### **A family with \$76,000 in household income**

This family would see its tax burden drop from \$4,100 to \$3,300. The saving would be entirely through the "make work pay" tax credit.

### **A family with \$35,000 in household income**

This family would benefit from the \$800 per family "make work pay" credit and an expanded Earned Income Tax Credit. Deloitte Tax estimates this family's tax burden would fall by \$1,200.

A single taxpayer with \$35,000 in income would see his or her tax drop by \$400.

Gleckman's blog post at the Tax Policy Center sums it up well. "If you are blue-collar wage earner, a low-income family with children, or a college student, you should love President Obama's tax plan," he wrote. "On the other hand, if you are making more than \$250,000, you may not be so happy: By 2011, you'd be paying a lot more tax than you've gotten used to over the past few years."

## **President Obama's foreclosure fix**

The multipronged fix calls for companies to help as many 4 million struggling borrowers by modifying loans so housing payments are no more than 31% of monthly gross income. Separately, homeowners who haven't missed a payment can refinance into lower-cost loans even if they have little or no equity. This is expected to help up to 5 million homeowners.

The \$75 billion loan modification plan will provide incentives to borrowers and loan servicers and investors to spur mortgage modifications. The government will also subsidize interest rate reductions to get borrowers to affordable monthly payments.

"This plan will help make home ownership more affordable for nine million American families and in doing so, help to stop the damaging impact that declining home prices have on all Americans," said Housing Secretary Shaun Donovan.

Administration officials once again stressed that they are not using taxpayer money to bailout irresponsible homebuyers, listing those who will not qualify for assistance: people who bought investment properties, lied on their mortgage documents or purchased multimillion dollar homes.

### **Would you walk away from your home?**

"The cost of not acting outstrips that of acting boldly," said a senior administration official.

Borrowers can now contact their servicers to see whether they are eligible for assistance. Federal officials have posted additional information for borrowers to determine their eligibility at [www.hud.gov](http://www.hud.gov). They will also promote the program at homeownership events nationwide.

### **Who's eligible for modification?**

The administration Wednesday released additional eligibility criteria and program guidelines.

The loan modification plan focuses on people who are behind in their payments or are at risk of default.

Federal officials clarified the definition of "at risk" as those: suffering serious hardships, declines in income or increase in expenses; facing an interest rate hike; having high mortgage debt compared to income; owing more than their house is worth, or demonstrating other reasons for being close to default.

To participate in the loan modification plan, borrowers must:

have obtained their mortgage before Jan. 1, 2009;

have a primary mortgage of less than \$729,500;

live in the property;

fully document their income by providing tax returns and pay stubs;

sign a statement of financial hardship; and

go for counseling if their total household debt - including auto loans, credit cards and alimony - totals more than 55% of their income.

The modification program will be in effect until the end of 2012, but loans can only be adjusted once.

Officials also unveiled more details on how servicers will modify the loans. First, they must reduce interest rates so that borrowers' total house payments are not more than 38% of their monthly income. The government will then subsidize servicers dollar-for-dollar to lower that ratio to 31% - but the interest rate can't go below 2%.

The new interest rate would then remain in place for five years, after which it will increase by 1 percentage point a year until it reaches either the original rate or the prevailing mortgage rate at the time of the modification, whichever is lower. This should prevent borrowers from suffering the "payment shock" that sent many borrowers with adjustable-rate mortgage into default in recent years.

If rate reductions aren't enough to get payments to 31% of income, a lender can extend the term up to 40 years, or shift part of the principal to the end of the loan at no interest. Servicers also have the option of reducing the loan's balance.

Servicers will receive \$1,000 for each loan modified, as well as additional annual bonuses if borrowers keep up with payments. Investors will receive one-time \$1,500 incentive payments for restructuring qualifying loans that are not yet delinquent. Finally, borrowers who keep up with their new payments will receive up to \$1,000 a year in principal reduction, for up to five years.

While the program is voluntary, once servicers commit to participating, they must evaluate all loans that may be eligible. Financial institutions that receive government money going forward must participate.

Only loans where the cost of the foreclosure would be higher than the cost of modification would qualify.

The government is also providing incentives to servicers and borrowers to enter into "short sales" or "deed-in-lieu of foreclosure" agreements with those who can't afford to stay in their homes. In these cases, the bank agrees to take back the home for less than what's owed without filing for foreclosure.

The program also includes a new provision to eliminate borrowers' second mortgages, which will reduce their overall debt levels. Investors in those mortgages, who at times have blocked modifications because they don't benefit from the adjustments, will be paid to eliminate those claims. Details on how much they'll receive will be announced in coming weeks, senior government officials said. Servicers that get second-mortgage holders to participate will receive an additional \$250.

### **The refinancing program**

The refinancing program, which is open to homeowners who took out loans from Fannie Mae and Freddie

Mac, allows borrowers with less than 20% equity in their homes to refinance to the current prevailing rate. However, borrowers cannot owe more than 105% of the value of their home and must be current on their payments.

The program ends in June 2010. Each servicer will provide details on the terms and costs associated with the refinancing program.

### **Be patient**

While borrowers can now start contacting servicers, it may take several weeks for companies to implement the guidelines, said a senior mortgage industry official in a conference call with reporters.

Servicers are adding staff to handle the expected deluge of calls. Bank of America, for instance, just boosted its servicing staff by 1,000 people.

Still, officials warned borrowers - many of whom have complained of long waits and unresponsive staff at servicers - to be patient.

"There will definitely be a flood of activity, so it's important for consumers to be patient and be persistent and to take a hard look at their own personal financial situation so they can come prepared to really move the process forward as rapidly as possible," the officials said.

