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PROTECTING TRUST IN STATE TRUST FUNDS:

An Examination of Options to Improve Florida’s Trust Fund Mechanism

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EXECUTIVE SUMMARY

Since the beginning of the economic recession in 2000, state governments have experienced tight fiscal constraints. Florida is especially sensitive to downtimes largely due to its heavy reliance on sales tax. When economic times are bad they are especially bad on a state that relies on tourism like Florida. This has resulted in the need for the legislature to find funding wherever it can.

State sponsored trust funds are mechanisms through which money is kept for certain earmarked purposes. These funds are enacted with the specific intention of creating a funding pool that will outlast politicians. Trust funds are normally perpetuated by either a fee or a tax that has been enacted in order to create the fund. By design, when capital is removed from a trust fund it should create controversy; political embarrassment is the only safety mechanism by which trust funds protect money.

Information for this report was collected using three methods. First, popular media and academic literature were analyzed to provide background information and insight into the way trust funds work. Second applicable laws and cases were reviewed to further understand the way moneys held in trust are intended to function. Third, people in key positions that would have insight into such matters were interviewed anonymously in order to be sure of information untainted by political embarrassment.

This report presents four policy options for trust funds: Overflow Fund, Surrender of Unused Funds to General Revenue, Eliminate Trust Funds, and Status Quo.
Each option is evaluated against four criteria: transparency, trust protection, and fund controllability.

Based on the assessment of the alternatives, the Overflow Fund is recommended. It will meet all three of the criteria as well as be politically acceptable to the people of Florida. The other options are also acceptable, especially if they are used together on a fund-by-fund basis. Sweeping changes like eliminating trust funds or directly surrendering all excess funds to general revenue are impractical. The Overflow Fund would encourage transparency and trust protection as well as increase fund controllability for the legislature.
I. PROBLEM STATEMENT

Trust funds are specifically set aside pools of funding created to help prevent future officials from undermining the programs that they have fought to create (Patashnik, 1997). These funds are intended to accrue revenue for certain programs from particular earmarked fees and/or taxes. Florida’s current trust fund system consists of several hundred funds and seems to benefit the taxpayer for reasons of accountability and fair, justifiable taxation and fee collection. By design, trust funds bring with them the inability to make fresh decisions about policy direction by making it difficult to implement policy change thanks to a precommitment of funds.

The Legislature has begun to use excess capital from the state’s trust funds as general revenue, an act that is often referred to as “raiding the trust funds” (St. John, La Polt, and Epstein, 2003). This action borders on very grey legal waters, but this action has not yet been challenged in court. Removing money from specifically earmarked trust funds for use as general revenue raises tough questions. The Governor’s 2003 budget laid out his plan to use trust fund money as general revenue. This sets a precedent that makes this issue no longer possible to ignore as Florida is now feeling this action’s effects. One representative example is the removal of money from trust funds set aside for inland protection has halted the Department of Environmental Protection’s clean up of the old St. Marks Refinery along with 1,500 other contaminated sites around the state (Tallahassee Democrat, 2003).
The removal of earmarked revenue from trust funds raises an important issue. The action makes trust funds appear to lack the ability to protect money held in trust. These actions could have the ability to erode the power of the trust fund mechanism and if that is the case there is cause for alarm. In the past it had been considered inappropriate and/or politically unwise to take action in opposition to the spirit of a sacred cow like Florida’s trust funds (Weidenbaum, 1960). Judging by the lack of notice by the public, it is now clear that political repercussions for taking such an action are minimal (Wallsten, 2003). Thus it becomes important to examine ways in which the trust fund mechanism can be improved.

Currently in Florida trust funds are used to capture a great number of fees and taxes. These fees and taxes have been specifically set aside in trust to pay for certain services of government. This study seeks to determine if this practice is beneficial to the people. The purpose of this paper is to examine Florida’s current use of trust funds and investigate ways to improve the protection of funds held in trust.
II. BACKGROUND AND LITERATURE REVIEW

Background

This section presents a brief history of the use of trust funds, point out the current use of earmarked funds for general revenue in the State, presents problems that have resulted from the inappropriate use of trust funds, and identify the State’s unique revenue issues that encourage legislators to engage in removal of earmarked funds.

First, trust funds have become a popular way for politicians to give social programs long term survival. They arose as we know them during the administration of Franklin Delano Roosevelt. This is when the United States’ most prominent trust fund was created; the Social Security Trust Fund (Aaron and Burtless, 1989). This fund gives life to the social program that shares its name. Creating a trust fund to go along with a social program is intended to insure long term program survival. Furthermore if a trust fund can be granted its own revenue stream, then it should be able perpetuate itself until there is a change in the law. For instance, the Social Security Trust Fund is powered by a payroll tax (Abel, 1999). This money is taken from the paychecks of all working US citizens and held in trust with the express intention of providing benefits to the retired population. An example that resonates with Floridians is the Transportation Trust Fund that is attached to the Gas Tax.

The only thing that prevents those in control of the purse strings is political pressure to keep funds that are collected for certain reasons to be used for those reasons. (Weidenbaum, 1960) When a legislature has decided to create a trust fund complete with
a revenue stream it is fairly evident that it had the intention of creating a long term program. Trust funds are intended to be just what the name itself implies, funds held in trust.

Secondly, in Florida, actions taken by the legislature have proven that currently there is virtually no pressure to keep public officials’ hands off entrusted monies. For example, Florida’s legislature took $126 million from the Affordable Housing Trust Fund and $200 million from the gasoline tax trust fund in 2003 (Cook Lauer, Cottrell, Hirth, Yeager 2003). The use of these funds held in public trust for reasons other than their earmarked purpose has raised little popular concern (Wallsten, 2003). The legislature has engaged in this practice on several occasions in the past, most notably during the economic recession of the early 1990s (Anonymous, personal communication, April 13, 2004).

Third, this raises concerns as to whether or not current trust fund system functions like it should. It is evident that money in a trust fund is not much safer than money allocated to programs that are not in trust funds, nor are the programs that they are intended to safeguard much, if any, safer. As mentioned earlier the removal of moneys held in the Environmental Trust Fund has halted environmental clean up efforts in 1,500 unsanitary areas around the state. If this practice of removing earmarked funds for use as general revenue continues other programs could be seriously undermined. Even if coded in statute, a program without funding ceases to exist. This happened recently when the state decided to stop funding the GAP Commission in 1998. The Commission is still coded in the Government Accountability and Performance Act of 1994, yet no longer exists due to it being unfunded (Fuchs, 2002). As cited earlier large amounts of money
were taken from the Affordable Housing Trust Fund and The Transportation Trust Fund, if similar fates befall their programs Florida could face serious complications in its future. Transportation infrastructure has been linked to the development of the economy. (Walton, 1993) Affordable housing also improves the economy by encouraging a higher rate of stable net individual worth for taxpayers (Akerlof, Gale, Hall, Laibson, Repetto, Tobacman, 1998).

Fourth, trust funds are supposed to create difficulty in accessing funds that would otherwise be sitting unused; this creates what has been termed by one economist as the “yoke of prior commitments” (Steuerle, 1996, p. 428). This is often unpopular with politicians because it takes away their power to do things with the money now. Florida is also a state that is dedicated to remaining largely untaxed. Florida is the fourth largest state but its tax revenues per capita rank is 44th out of the 50 states (Governing Magazine, 2003). There is reluctance to raise taxes and it is an issue that can create gridlock at its mere mention. The fear of new taxes has been so pronounced that legislators will do anything to avoid the issue.

In summation trust funds are an effective method used by politicians to give programs a greater chance for long term survival. Trust funds do this by keeping resources highly visible, a trait that is intended to create political pressure to use the monies for their earmarked purposes. A recurring problem for trust funds occurs when legislators decide to use earmarked capital for purposes other than what they were earmarked for. The practice is within their rights, and currently officials have not felt any pressure to leave trust fund monies alone. This practice has created financial difficulties
for programs like the cleanup of environmental hazards across Florida and fair housing projects.

**Literature Review**

The literature review addresses three major themes that have implications for the improvement of the trust fund mechanism: the function, problems with, and options for changing trust funds.

First, the literature details the function of trust funds in the public sector. Despite a relatively small amount of information on this topic, some authors define the scope of what a trust fund is and give a broad sense of their purpose (Patashnik, 1997; Rubin, 1993; Weidenbaum, 1960). They detail the political nature of public budgeting in the role of establishing trusts. Ideally, the trusts are designed in such a way as to establish the greater good as opposed to individual interests. Trust funds are intended to maintain a stream of revenue for a project. Sometimes, however, trust funds do make more money than they use. The result is the excess capital that is in some cases being absorbed into the general revenue fund.

Trust funds are funded through specially earmarked fees or taxes. A fee is set aside for a specific purpose; once it has been collected it is to be used for that purpose. The court system of Florida has said that if money collected from the public is used for anything else than what it was intended it becomes a tax (Hollywood Inc. v. Broward County, 1983). Once a tax has been levied it is within the realm of the government that has collected it to spend it as they see fit. Fees and even some taxes are intended to be used for specific purposes.
Secondly, the literature deals with potential problems associated with trust funds. The authors suggest that not all funds in the possession of a government are fully owned by that government (Weidenbaum, 1960). Trust funds for example are held in trust and are partially owned by the government in question. This assertion assumes that it is not reasonable for a government to take these partially owned funds and apply them to anything else but the specific purpose for which they have been placed in trust. A trust fund is made up of moneys that have been received for the benefit of individuals or groups of individuals. The resources that are held in trust are payable only to or for the use of the beneficiaries (Weidenbaum, 1960).

In contrast the only thing stopping a government from taking earmarked funds from a trust fund and placing them in general revenue is the fear that it will backfire upon them politically (Weidenbaum, 1960). Removing money from a trust fund can go virtually unnoticed, if there is no one to oppose it. This study implies that all that is necessary for a trust fund to fail is the proper political climate.

Another problem found in this literature is the volatility associated with forecasting (Aaron and Burtless, 1989). The Social Security Trust Fund has a certain amount of inescapable volatility associated with it. There is a debate as to whether there should be a decrease in current taxation or benefits in order to come into closer actuarial balance with the future of the Social Security Trust Fund (Aaron and Burtless, 1989). It stands to reason that if you generalize the findings of the above study that there is danger in removing money from trust funds. No financially prosperous time has ever carried on indefinitely, and when that happens the trust fund could go unfunded and thus be unable to fulfill the purpose for which it was created.
The literature also details the volatility of the political climate and its effect on the stability (or lack thereof) of funding the trust funds (Baumgartner, Jones, and True, 1997). Often the political climate can change so quickly for certain programs that the consensus over the importance of what is being done with the fund can be essential. This is especially true in government where so many things that are worthwhile can also be counter-cyclical. This creates the possibility of trust fund surpluses in good economic times and shortfalls in bad economic times.

Third the literature details alternative options for the use of trust funds (Poterba, 1996; Abel, 1999; Smetters, 2000). These articles largely examine the strategies available to budgeters when it is discovered that trust funds have surpluses.

This literature examines the results of state budget shortfalls and the balancing of state trust funds. Most states have a clause within their constitution that requires them to maintain a balanced budget. States that do not are still encouraged to maintain a balanced budget for reasons of solvency. Sometimes these rules also extend to their trust funds (Poterba, 1996; Abel, 1999; Smetters, 2000).

The literature suggests that money in trust can be put to a better use by investing it appropriately (Abel, 1999). Invest part of it in low risk, low yield bonds for the larger portion and in higher risk, higher yield investments for the smaller portion of it. If the state can make use of this excess money in the trust fund while it is still in its surplus stage. It is only a matter of time before the Social Security Trust Fund is no longer producing a surplus and it will be uncertain when that happens if there will ever be a surplus again (Abel, 1999).
This could be beneficial to the state for several reasons. The first is that spending money now as opposed to later will maintain purchasing power by staying ahead of inflation. Another reason is that the money we use as a short term loan would not require the state to pay interest or loan charges. There is potential for a considerable amount of savings. It could also result in much tighter fiscal policies (Poterba, 1996).

This method has the potential to reduce the need for ever raising payroll taxes or lowering benefits. But there is a good amount of risk involved, and of course there is a possibility that this method could leave funds in a worse position than they were before this venture. However, by diversifying the portfolio with low risk and high risk ventures it becomes very hard to lose everything. This is a standard financial practice and is the equivalent of hedging your bets (Abel, 1999).

Smetters also suggests the need to invest trust fund surplus, but he is more aggressive than Abel. Smetters would have the United States invest the entire surplus in equities a much more risk prone investment strategy. Smetters is backed up by the long term magic of capitalism, that is to say that the stock market over a span of ten years has never lost money (Smetters, 2000). It will fluctuate from bull to bear market, but over a span of ten years it has always balanced itself out on the upswing.

Smetters also examines the action of raising payroll taxes. He argues that this would be a negative for current workers as it would force them to pay more into Social Security than future payers of the tax. Currently Smetters feels that it would be beneficial to invest our surplus and keep with us the intention of raising the payroll tax in the future. This would be necessary to Smetters even if there were no investment of current capital just to keep the Social Security system afloat. Smetters closes with an endorsement of
Bill Clinton’s less risk intense plan of investing $768 billion of the surplus in stocks, or about 14.6% of the value of the Social Security Trust Fund.

In conclusion this literature review addresses three major themes in the literature. The first theme dealt with their function, the second with their current problems functioning, and finally the third theme gave examples of current theories intended to make them stronger. Literature was examined from the United States, no literature was found that directly revolved around Florida.
III. METHODOLOGY AND EVALUATION CRITERIA

**Methodology**

Information for this action report has been collected using the following methods:

- analysis of articles published in Florida’s newspapers, government management periodicals, ERIC (1966-Present), JSTOR (1999-Present), Global Legal Information Network (1908-present), and academic literature: Key words: trust funds, earmarked funds, Florida, balanced budget, money, power; and

- review of applicable laws, rules, regulations, policies, planning documents and standards; and

- unstructured, 45 minute interviews (n=five) with staff from Florida’s Office of Program Policy Analysis and Government Accountability Tom Roth, professors from Florida State University’s Askew School Earle Klay and Neil Crispo, former director of Florida’s Department of Revenue Larry Fuchs, and staff from the Governor’s budget office (anonymity requested).

The analysis of articles published in Florida’s newspapers provided insight to the current events that surround the issue. The periodicals and academic literature were used to define the role and nature of trust funds as well as helped to determine the effectiveness of policy options by informing the evaluative criteria. The review of applicable laws was necessary for determining the power of the legislature over these funds.

Experts in the academic and professional spheres that have contact with trust funds were important to understanding the current intricacies of trust fund administration. The interviews lasted for roughly 45 minutes of questions, answers, and conversation about trust fund issues. The interviewees that were most often cited were people of high
position and knowledge in terms of this issue. The researcher’s professional position permitted easy access to many of the policy actors that were interviewed. Many of these policy actors were interviewed specifically about the policy options.

**Evaluative Criteria**

The criteria used to evaluate the policy options are:

- Transparency is the ability of the public and other outsiders to be able to see what public officials are doing. This will be determined by an examination of the ease by which trust fund activity is visible. Data sources for transparency are interviews conducted with public officials and academics.

- Trust protection is the ability of the policy option to encourage that monies be used for their earmarked purposes. This will be determined by an examination of the use of trust fund capital as intended. Data sources for trust protection are interviews conducted with public officials.

- Fund controllability is the ability of the legislature to control and use trust fund monies for other purposes. This will be determined by an examination of way trust fund monies can be used by the legislature. Data sources for fund controllability are interviews conducted with public officials.

One limitation of this study is the lack of a lot of literature on this issue, in particular that is directly involved with Florida. However, literature regarding trust fund use throughout the United States has been generalized for the analysis of this issue. Information specific to Florida has largely been taken from the interviews.
IV. MANAGEMENT POLICY OPTIONS

Section IV explains four of the most promising alternatives to the removal of earmarked capital from Trust Funds. The four alternatives are: creating an overflow fund, surrendering excess capital to general revenue, eliminating trust funds, and keeping status quo. Each alternative is evaluated using three criteria detailed in the previous section: transparency, trust protection, and fund controllability.

Option One: Overflow Fund

The Overflow Fund would be a fund to which unused capital in trust funds would flow after it has been accounted for. The monies taken from trust funds could be balanced on a yearly basis. This should be done at a time set by the legislature, preferably at a point that augments the budgeting process. The monitoring of the Overflow Fund would insure that the monies being removed from other trusts can be accounted for and documented. If funds that have given up capital fall short in the future, then there will be documentation on which agencies can rely when asking the legislature to make up for these shortfalls in the future. The only method by which trust funds are protected is through risk of popular political backlash (which is consistent with how they are currently protected), but it improves the mechanism through transparency and accountability.

One of the advantages of an Overflow Fund is that the fund itself can act as a focal point for all Trust Fund activity. If accountability mechanisms are in place for this fund, it will be much easier to keep all funds in trust accounted for. This fund can be
maintained by the Department of Revenue and will likely require at least one new
employee for administrative purposes (N. Crispo, personal communication, March 11,
2004).

**Transparency:** The Overflow Fund will make it easier to follow the movement of
capital in and out of the trust funds, which is currently very difficult citizens and public
officials (T. Roth, personal communication, January 14, 2004). Even state administrators
are unsure how to determine a simple thing like the current number of trust funds (T.
Roth, personal communication, January 14, 2004). No one interviewed knew what
person or agency to ask for that information. The Overflow Fund is intended to be
designed to increase the transparency of the trust funds. It would be beneficial to the
citizens, legislators, and public administrators to install such a mechanism as an Overflow
Fund for purposes of oversight (L. Fuchs, personal communication, February 19, 2004).
It would be a necessity that all moneys placed in the overflow fund would be accounted
for and a history shall be kept for all transfers (Anonymous, personal communication,
April 2, 2004). An Overflow Fund would have a positive effect on Transparency.

**Trust Protection:** The Overflow Fund will require the maintaining of records that
show the flow of capital in and out of the Overflow Fund; this can be protected to a
greater degree than it is under the current system (N. Crispo, personal communication,
March 11, 2004). The reason is that such a fund can provide greater transparency and
thus it would amplify the safety mechanisms by which Florida’s current system operates
(Anonymous, personal communication, April 2, 2004). This option would leave the
mechanism by which trust is protected to function in a fashion similar to how the system
currently operates; only now it would directly place all of the funds in the light of day (L.
An Overflow Fund would have a positive effect on Trust Protection.

**Fund controllability:** The Overflow Fund allows for greater control of funds for legislators. All available money will be at their fingertips and accounted for every budget session (Anonymous, personal communication, April 2, 2004). The Overflow Fund will be designed to catch all capital that is going unused from all trust funds and put it in one place for ease of control and accountability. This is concurrent with suggestions detailed in the literature review (Abel, 1999; Smetters, 2000) for improving trust funds. Furthermore it will enable legislators to make informed decisions thanks to the fact that trust fund information will be so easily accessible (N. Crispo, personal communication, March 11, 2004). Legislators will be able to scrutinize much more information about a trust fund including how much has been removed from it in the past or how much it has been subsidized with general revenue (T. Roth, personal communication, January 14, 2004). The accountability provided by an Overflow Fund would allow legislators to examine other peripherals as well, like the adjustment of tax and/or fee levels for specific trust funds (Anonymous, personal communication, April 2, 2004). An Overflow Fund would have a positive effect on Fund controllability.

In summary the Overflow Fund would have positive effects on all three of the evaluative criteria. Transparency would be greater and thus trust protection would improve. Fund controllability would also improve due to the mechanism encouraging money to be used as opposed to sit in stagnation (N. Crispo, personal communication, March 11, 2004). This option has considerable benefit and little downside for all parties involved.
Option Two: Surrender Unused Money to General Revenue

This option suggests that all excess capital in trust funds be funneled directly into general revenue. Surrendering unused capital to the General Revenue Fund can make monies available to legislators. This is already happening to a large degree (Anonymous, personal communication, April 2, 2004), but if required by statute it would save a lot of perpetual administrative work on behalf of the legislature. This is a responsibility that can be delegated to another section of government (like the Department of Revenue) through changing statutes to require excess monies to be transferred to General Revenue (T. Roth, personal communication, January 14, 2004).

**Transparency:** This option is unlikely improve transparency, because this option is not extremely transparent by nature (N. Crispo, personal communication, March 11, 2004). Funds transferred directly to general revenue have a way of being forgotten about, because once money enters general revenue it has a tendency to remain in that fund until it is spent (T. Roth, personal communication, January 14, 2004). Surrendering Unused Money to General Revenue could potentially end up taking capital intended for certain purposes without any real accountability to the fund (N. Crispo, personal communication, March 11, 2004). This removes one step from the current process, and in doing so will take money from trust funds without any kind of debate. Surrendering unused money to general revenue would have a negative effect on transparency.

**Trust Protection:** This approach will minimize trust protection is minimized due to the automatic transfer of funds out of trust funds. Trust funds under this system will actually lose protection from the current system because it will remove one step to placing the funds in general revenue (L. Fuchs, personal communication, February 19,
This increases the ability of the legislature to remove money from trust funds (Weidenbaum, 1960). This action would decrease the legislature’s likelihood to examine long term issues that may impact the trust fund in the future and does not insure the solvency of the trust (T. Roth, personal communication, January 14, 2004). This does not improve transparency, the method by which trust funds are currently protected. Surrendering money from trust funds to general revenue would have a negative effect on trust protection.

**Fund controllability:** Surrender Unused Money to General Revenue will enable the legislature to use all excess funds every year without having to take any steps to find the funds and transfer them from one fund to another (L. Fuchs, personal communication, February 19, 2004). If this becomes a mechanism it will make all available funds immediately available to be spent by legislators, thus saving a lot of time and enabling legislators with a greater amount of control (Anonymous, personal communication, April 2, 2003). It is very likely that this option will immediately produce more capital in general revenue (Anonymous, personal communication, April 2, 2003). Surrendering unused money to general revenue would have a positive effect on fund controllability.

In summary Surrender Unused Money to General Revenue will undermine transparency by making money transfers more difficult to notice because this mechanism will make the removal of funds automatic. Thanks to the loss of transparency, trust protection would also be damaged (T. Roth, personal communication, January 14, 2004). In contrast fund controllability will be improved for the legislature at the cost of some degree of open government.
Option Three: Eliminate Trust Funds

This strategy will eliminate trust funds entirely and put all money straight to general revenue. Although this allows for greater control, it also requires legislators to examine programs and line items every year. Under the current system mechanisms are in place for programs to exist without continued legislative maintenance (Anonymous, personal communication, April 2, 2003). There may be potential to increase control of existing capital and improve accountability, but it would be likely to create a much greater deal of work for the legislature (L. Fuchs, personal communication, February 19, 2004). Also, eliminating trust funds is likely to create political problems due to the great number of constituencies and special interests that have a lot at stake (N. Crispo, personal communication, March 11, 2004). Eliminating trust funds is very likely to be a prescription for litigation and political backlash.

**Transparency:** Eliminating trust funds will send all fees and taxes straight to the general revenue fund. There would be very little accountability in terms of being able to know if money that had been collected through fees and taxes for a certain purpose was being used for the purposes that it was collected for (L. Fuchs, personal communication, February 19, 2004). The quickness by which all money would be collected and spent would be a cause for an alarm and would create a serious lack of accountability. Eliminating trust funds would have a negative effect on transparency.

**Trust Protection:** Eliminate Trust Funds will minimize trust protection to such a degree that it becomes non-existent (L. Fuchs, personal communication, February 19, 2003). The only protection for trust under this plan is for politicians to champion the cause that requires funding. There will be no institutional momentum for any programs...
that have been in existence or will be created. Eliminating trust funds would have a negative effect on trust protection.

**Fund controllability:** Eliminate Trust Funds will maximize fund controllability (Anonymous, personal communication, April 2, 2004). Removing trust funds is one way of claiming a much larger spectrum of control over the revenue of the state. Without trust funds the legislature is in complete control of all funds that flow to the government regardless of what the money has been collected for. All funding for all programs would be renewed or denied on an ongoing basis. Eliminating trust funds would have a positive effect on fund controllability.

In summary eliminating trust funds would also eliminate a great deal of transparency for trust funds. There would no longer be any trust protection as all of the trust funds would be gone. The legislature would be in complete control of all taxes and fees that are collected which would make fund controllability paramount.

**Option Four: Status Quo**

This option discusses the concept of keeping things as they are, or status quo. Leaving things as they are retain the same set of problems that we are already dealing with. Though we would not alleviate any of these problems through this option, it is also unlikely that we would create any new and/or unforeseen problems.

**Transparency:** The Status Quo maintains that trust funds will have a small degree of transparency. Upon asking a number of public officials how many trust funds there are in Florida it is apparent that this is a number that nobody knows. If the state does stay with the current trust fund system, it would be beneficial to compile a listing of all trust funds into one place and require someone to oversee their activity (N. Crispo, personal
communication, March 11, 2003). Maintaining Status Quo would have a neutral effect on transparency.

**Trust Protection**: The Status Quo keeps trust funds moderately well protected. The design of the system is to encourage trust funds to remain untouched for fear of political repercussions (Weidenbaum, 1960). If transparency were improved it is possible to seriously improve the status-quo, if nothing were done to improve transparency we would have to rely on special interest groups or the media (T. Roth, personal communication, January 14, 2003). Maintaining Status Quo would have a neutral effect on trust protection.

**Fund controllability**: Status Quo keeps funds easily controllable, but not as easily controllable as they can be in other policy options. In this option legislators must search the trust funds for excess capital and then remove it through legislation. Whereas a mechanism that identifies excess funds could greatly improve the ease to which legislators control funds. Maintaining Status Quo would have a neutral effect on fund controllability.

In summary maintaining status quo is never a very good option. Reactive government does nothing to prepare for the future (T. Roth, personal communication, January 14, 2004). Transparency will remain questionable as trust protection will further erode. However, current fund controllability does seem to be strong (Anon, personal communication, April 2, 2004).
V. CONCLUSIONS

This report has presented four policy alternatives for Florida current use of the trust fund mechanism. Each policy was evaluated based on transparency, trust protection, and fund controllability. Table 1 summarizes the results.

Table: Summary of Alternatives and Evaluative Criteria

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Ranking Scale: 1 to 3 with 1 being negative, 2 being neutral, and 3 being positive

Creating an Overflow Fund is the best possible option. It maximizes transparency, trust protection, and fund controllability through creation of a new mechanism. The option would lessen the workload of legislative staff and legislators. Neither would it remove their ability to follow the rational nexus from which taxes or
fees leave their pockets to where they end up being spent, nor would this option anger constituents or special interest groups. Therefore if it was the will of the legislature, it could be implemented.

Surrendering money to general revenue, option two, is something that may be very beneficial on a smaller level with certain funds, but it is unlikely to be a viable option for all funds. There are probably political consequences to this action if taken against funds with political clout like the Fair Housing Trust Fund. Transparency and trust protection would be weakened, but fund controllability would be strengthened. On a fund by fund basis this option could be useful.

Option three, eliminating all trust funds, in one sweeping action could be a political disaster because of all the affected special interest groups that are likely to react negatively. Like the above option, transparency and trust protection are both minimized. It would maximize fund controllability, thanks to capital being placed directly in the legislature’s hands. This option would also be very effective on a fund by fund basis, eliminating selected trust funds.

Maintaining Status Quo is a safe, but inadequate option. It does nothing to improve any mechanism or situation. Transparency, trust protection, and fund controllability would remain at their current levels. Another benefit to maintaining the Status Quo is that it does not offend special interest groups.

All of the options are effective to varying degrees. Assessment of the alternatives indicates that the best all around option is the Overflow Fund. It improves the mechanism by improving transparency, trust protection, and fund controllability; all of the evaluative criteria are met and surpassed. It is the only option that achieves this.
REFERENCES


Hollywood Inc. v. Broward County, 431 So. 2d 606 (S.C. Fla. 1983)


ABOUT THE AUTHOR

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