

## HURRICANE REBUILDING AND INDIAN GAMING PROVIDE MORE REVENUE FOR THE NEXT BUDGET

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**A**s the Florida Legislature prepares to go into conference budget negotiations to finalize the FY2018-19 budget, state estimators gave lawmakers a bit of good news. Florida's General Revenue (GR) Estimating Conference met on February 9 and forecast that the state would collect an additional \$461.8 million in FY2017-18 and FY2018-19. This is money for the new budget that the House and Senate did not know they had when they developed their spending plans in the first half of this session. Estimated GR was revised upward by \$181.3 million in FY2017-18 and by \$280.5 million in FY2018-19.<sup>1</sup>

The increased estimates are not the result of better-than-expected economic and normal revenue growth. Earlier estimating conferences had adopted slightly weaker near-term national and state economic forecasts.<sup>2</sup> Instead, the change comes mostly from two factors: increased sales tax collections from hurricane rebuilding and a change in how gaming payments from the Seminole Tribe are made.<sup>3</sup>

Since the last estimates were made in August 2017, actual collections have come in slightly below the forecast. The economists believe this is due to disruptions from Hurricane Irma. Without the hurricane and gaming factors, the GR estimates would have largely been unchanged. In fact, more revenue sources had decreased estimates than increased over the two-year period (see table on page 2).

Sales taxes, the state's largest revenue source, was increased by \$359.4 million over the two years—more than two-thirds of that is from hurricane rebuilding. Indian Gaming revenues were increased by \$106.7 million. Some of the increase (\$25.3 million) is due to higher net casino winnings, but most (\$81.4 million) comes from the change in revenue sharing methodology. The hurricane and the gaming methodology account for 75.7 percent of the total GR increase.

### Change in Estimated General Revenue Available for 2018-19 State Budget

Increase in 2017-18 Estimated Revenues	\$181.3 million
Increase in 2018-19 Estimated Revenues	\$280.5 million
Total Additional Revenue	\$461.8 million

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1 Office of Economic and Demographic Research, results of the General Revenue Estimating Conference, February 9, 2018.

2 Office of Economic and Demographic Research, results of the Economic Estimating Conferences, National Economy (January 9, 2018) and Florida Economy (January 16, 2018).

3 It is assumed that the Tribe will change its revenue sharing payment methodology beginning in FY2018-19 to make the payment for each month equal to one-twelfth of the projected annual total for the year, eliminating the need for the large annual true-ups traditionally made in August after the end of each fiscal year.

The state is now expecting to collect \$31.1 billion in GR during the current year, and \$32.5 billion during FY2018-19. This represents annual growth of 5.1 percent and 4.4 percent, respectively. Longer-term, annual growth of 3.3 percent to 3.6 percent is expected through FY2021-22.

#### Change in General Revenue Estimates (\$ millions)

FY	Aug 2017 Estimate	Feb 2018 Estimate	Change in Estimate	Annual Change Based on Feb 2018 Estimate	
2017-18	\$30,926.0	\$31,107.3	\$181.3	\$1,512.8	5.1%
2018-19	\$32,201.4	\$32,481.9	\$280.5	\$1,374.6	4.4%
2019-20	\$33,474.9	\$33,549.9	\$75.0	\$1,068.0	3.3%
2020-21	\$34,714.5	\$34,746.1	\$31.6	\$1,196.2	3.6%
2021-22	\$35,977.9	\$35,994.0	\$16.1	\$1,247.9	3.6%

#### Change in General Revenue Estimates by Source \$ millions

Revenue Source	FY2017-18	FY2018-19	Total
<b>Increased Estimates</b>			
Sales Tax	\$188.6	\$170.8	\$359.4
Indian Gaming Revenues	\$4.4	\$102.3	\$106.7
Corporate Income Tax	\$10.0	\$20.0	\$30.0
Insurance Premium Tax	\$7.9	\$10.3	\$18.2
Corporate Filing Fees	\$4.3	\$1.9	\$6.2
Highway Safety Licenses & Fees	\$7.3	\$(5.7)	\$1.6
<b>Decreased Estimates</b>			
Beverage Tax & License	\$(10.7)	\$(12.0)	\$(22.7)
Intangibles Tax	\$(7.8)	\$(7.4)	\$(15.2)
Counties Medicaid Share	0.0	\$(6.3)	\$(6.3)
Article V (Court) Fee	\$(5.2)	\$0.4	\$(4.8)
Documentary Stamp Tax	\$(3.9)	0.0	\$(3.9)
Tobacco Taxes	\$(1.0)	\$(2.3)	\$(3.3)
Other Sources*	\$(12.6)	\$8.5	\$(4.1)
<b>Total</b>	<b>\$181.3</b>	<b>\$280.5</b>	<b>\$461.8</b>

\*Beverage Tax and Licenses, Parimutuels Tax, Severance Tax, GR Service Charges, Earnings on Investments, Refunds, Other Taxes and Fees, and Nonoperating Revenue.

## OTHER REVENUE ESTIMATING CONFERENCES

In addition to GR, there are estimating conferences for various trust fund revenues. Some of these can impact the need for GR funding. Below is a summary of some of those conference results.

**Lottery** – An important part of education funding in Florida, the Lottery continues to perform well, providing approximately \$1.7 billion annually for the Educational Enhancement Trust Fund (EETF). Several large jackpots boosted sales enough to more than offset two-weeks of slow sales due to hurricane Irma. The latest forecast increased revenue estimates by \$34.7 million in FY2017-18 and \$72.8 million in FY2018-19. This would add \$107.5 million to the EETF to be available to the 2018 Legislature. The EETF is now expected to have \$2.009 billion in recurring revenue (including \$196.0 million in slot machine tax revenue) available for the next budget. This is \$230.9 million (13.0 percent) more than FY2017-18 recurring appropriations.

**Ad Valorem (Property Taxes)** - The estimate of total state taxable value used for school property taxes was increased slightly (0.4 percent). The value of 1 mill is now estimated at \$1.948 billion, an increase in the estimate of about \$8 million. This impacts the mix of state and local funds for PreK-12 education funding. The increase in value would add approximately \$40 million to the already expected \$518 million in increased local funding at the current millage rate. As it did this year, the 2018 Legislature will have to decide if it wants to lessen that increased burden on local property taxpayers (House position) or use the entire increase in taxes from rising values (Senate position).

**Tobacco Taxes** – In addition to General Revenue, tobacco taxes provide money for the Health Care Trust Fund, which helps fund the state's Medicaid program. The estimate of tax collections was reduced in each year of the forecast and it is expected the annual revenues will continue to decrease. In addition to the two-year reduction of \$5.8 million in GR, estimated revenue into the Health Care Trust Fund was reduced \$17.8 million. As a result, tobacco taxes will not help fund the growth in Medicaid costs.

**Transportation Revenues** – The State Transportation Trust Fund (STTF) funds Florida's transportation work program. These revenues, which come from fuel taxes, motor vehicle licenses and fees, and the rental car surcharge, do not impact General Revenue spending, since GR is very rarely used for transportation expenditures. The estimate of revenue deposited into the STTF was increased by \$69.2 million (0.3 percent) over the 5-year work program period.

**Public Education Capital Outlay (PECO)** - The PECO program provides funding for educational facilities construction and fixed capital outlay needs for school districts, charter schools, the Florida College System, the State University System, and other public education programs. It is funded with gross receipts taxes on utilities. The estimate for FY2017-18 was unchanged, but the amount of funds (cash) available for appropriation next year was increased by \$28.8 million—to \$335.6 million. If the Legislature chose to bond this money (unlikely), the estimate of maximum bonding proceeds was increased by \$398.0 million—to \$3.034 billion.

**General Revenue Budget Outlook**  
\$ Million

	Recurring	Non-recurring	Total
<b>GR Available for 2017-18</b>			
Reserve (carried forward)		\$1,515	\$1,515
Estimated Revenues	\$30,701	\$406	\$31,107
Trust Fund Sweeps		\$458	\$458
Release of Indian Gaming Reserves		\$227	\$227
BP Settlement Payment	\$27	\$(27)	\$(27)
FEMA Reimbursements		\$14	\$14
Unused Appropriations/Other Adjustments	\$(1)	\$2	\$1
<b>Total funds Available for 2016-17</b>	<b>\$30,727</b>	<b>\$2,595</b>	<b>\$33,322</b>
<b>GR Appropriations by 2017 Legislature</b>			
2016-17 Appropriations	\$30,706	\$802	\$31,508
Transfer to Budget Stabilization Fund		\$32	\$32
Reappropriation - Zika Virus Response		\$23	\$23
Other Reappropriations		\$48	\$48
Budget Amendments - Hurricane Response		\$298	\$298
Budget Amendments - Bridge Loans		\$45	\$45
Budget Amendments - Puerto Rico Assistance		\$0	\$0
Total Effective Appropriations	\$30,706	\$1,249	\$31,955
<b>Ending Balance</b>	<b>\$21</b>	<b>\$1,346</b>	<b>\$1,367</b>
<b>GR Available for Next Budget 2018-19</b>			
Reserve (carried forward)		\$1,367	\$1,367
Estimated Revenues	\$31,986	\$496	\$32,482
BP Settlement Payment	\$27		\$27
Unused Appropriations/Reversions		\$100	\$100
Federal Funds Interest Earnings Rebate	\$(2)		\$(2)
<b>General Revenue Available for Next Budget</b>	<b>\$32,011</b>	<b>\$1,963</b>	<b>\$33,974</b>
<b>Previous Estimate - August 2017 GR Conference</b>	<b>\$31,952</b>	<b>\$1,833</b>	<b>\$33,785</b>
<b>Previous Estimate - December 2017 GR Outlook*</b>	<b>\$31,952</b>	<b>\$1,677</b>	<b>\$33,629</b>
<b>Difference from August 2017 GR Conference</b>	<b>\$59</b>	<b>\$130</b>	<b>\$190</b>
<b>Difference from December 2017 GR Outlook*</b>	<b>\$59</b>	<b>\$286</b>	<b>\$345</b>

\* In December 2017, the GR Financial Outlook Statement was revised to reflect additional hurricane spending and other adjustments. The August 2017 revenue estimates were not changed.

## CONCLUSION

This additional revenue could make the upcoming budget negotiations easier, but any relief will be short-lived.

Only \$59.3 million of the added revenue is recurring, most of it is non-recurring, so lawmakers should avoid devoting it to recurring expenditures. The gaming revenue bump is basically a payment speed-up; \$81.4 million from the “true-up” is simply money that will now be collected in FY2018-19, instead of FY2019-20. At this point, all Seminole gaming revenues are non-recurring, because they are not assured. The Legislature is still trying to decide what it wants the state’s gaming future to look like, and the agreement with the Seminoles entitles the Tribe to stop payments to the state if they lose exclusivity on games.

The hurricane-related sales taxes are non-recurring as well, and moreover, will not even pay for hurricane-related expenses. There have already been hurricane-related budget amendments totaling more than \$300 million, and there will surely be more spending to recover from the storms, as evidenced by the hurricane-related funding in the House and Senate proposed budgets.<sup>4</sup> Hurricanes are not net money-makers and a recent report shows that added expenses from a storm exceed any additional revenue.<sup>5</sup> The estimators believe this will be true with Irma, where “the state ends up spending more money than it brings in, by a good bit.”<sup>6</sup>

Even though the estimates of revenue collections were increased by \$461.8 million, the estimate of total GR *available* for FY2018-19 is only \$189.5 million more than was estimated in August. Adjustments such as added spending in FY2017-18 reduced the estimate of available revenue (see GR budget Outlook on previous page). The state revised the estimate of available GR (but not revenues) in December 2017 to reflect those other changes and that was the official estimate of available GR as the 2018 session began. The new (February 2018) estimate of available GR is \$345.3 million more than the December estimate, a better reflection of the new dollars available to the Legislature.

The new revenue estimated will also have little material effect on the state’s future budget outlook. It was estimated back in September that, even before the hurricane is considered, the state was facing large shortfalls of \$1.1 billion in FY2019-20 and \$1.6 billion in FY2020-21.<sup>7</sup> This is due to the continuing “structural imbalance” of the state’s recurring expenditures exceeding recurring revenues. It was further estimated that \$369.5 million in spending cuts and/or revenue increases in each of the next three years will be needed to erase the shortfall in FY2020-21. An additional \$189.6 million in recurring spending will have to be converted to non-recurring. Postponing corrective actions will make it even more difficult to resolve the future shortfalls.

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4 Florida TaxWatch Budget Watch – Proposed Budgets Close in Amount, but Big Differences Remain, February 2018.

5 After the 2004 and 2005 hurricanes, the Legislative Office of Economic and Demographic Research undertook an in-depth analysis of the revenue and budgetary impact of hurricanes. The state’s hurricane-related expenditures were compared to the estimated additional revenues and the bottom line was clearly negative.

6 Amy Baker, Coordinator, Office of Economic and Demographic Research, quoted in “Lawmakers get revenue boost ahead of budget talks,” News Service of Florida, February 9, 2018. Committee, September 15, 2017.

7 Florida Legislature, Long-Range Financial Outlook, September 2017. For more information, see Florida TaxWatch Budget Watch – Budget Surplus Threatened by Irma Impacts, September 2017.

The House and Senate have both passed their budget proposals,<sup>8</sup> but there is a long way to go before the final state budget is adopted and the future fiscal impact of it can be assessed. Florida TaxWatch urges the Legislature to continue to scrutinize the base budget, and to show restraint in funding new initiatives and member projects. Lawmakers should also look to implement the recommendations of the constitutionally-created Government Efficiency Task Force (GETF). The 29 recommendations within the final GETF report range on issues from telehealth to criminal justice to efficiency in state contracting. The state could realize savings and cost avoidance upwards of \$2 billion if these recommendations were implemented.

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8 Florida TaxWatch Budget Watch – Proposed Budgets Close in Amount, but Big Differences Remain, February 2018.

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