

## MORE GR AVAILABLE FOR NEXT BUDGET THANKS TO SEMINOLE GAMING SETTLEMENT

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**A** weaker than expected economic forecast will dampen growth in Florida's General Revenue (GR) tax collections, especially for the state's biggest money-maker—the sales tax. The good news is, revenue from the gaming agreement<sup>1</sup> that was reached in July between the state and the Seminole Tribe will more than offset that loss.

Buoyed by the Indian Gaming revenue, the General Revenue Estimating Conference's new forecast increased expected collections by \$132.2 million in FY2017-18 and by \$188.1 million in FY2018-19. That will provide the 2018 Legislature with \$320.3 million more in GR for the next state budget than was estimated last March (adjusted for actions of the 2017 Legislature).

The state's estimators recently scaled back expectations for the economy, both in Florida and the nation. This resulted in estimated sales tax collections being revised downward by \$291.9 million over the two-year period. The most significant increase among other tax sources was an \$155.6 million revision in corporate income tax collections due to higher-than-expected corporate profits. The Insurance Premium Tax estimate was also increased by \$66.4 million. Changes in the estimates for most of the other sources were minor (see table on page 2). In fact, excluding Indian Gaming revenue shows that the estimates for all other GR sources were revised downward by \$3.6 million.

The gaming agreement will provide \$550.7 million in additional revenue to the state over the two-year period. This includes \$323.9 million reflected in the increased estimates for FY2017-18 and FY2018-19, as well as \$226.8 million<sup>2</sup> that had been previously remitted by the Tribe and was being held in reserve pending an agreement. Add these reserve funds to the increased estimates and the 2018 Legislature will have \$33.785 billion in GR available for the FY2018-19 budget, \$547.1 million more than previously estimated.

### *Change in Estimated General Revenue Available for FY2017-18 State Budget*

Increase in 2017-18 Estimated Revenues	\$132.2 million
Increase in 2018-19 Estimated Revenues	\$188.1 million
Gaming Revenue Previously Held in Reserve	\$226.8 million
<b>Total Additional Revenue</b>	<b>\$547.1 million</b>

<sup>1</sup> In July 2017, the Seminole Tribe of Florida and the State of Florida agreed to drop a lawsuit over the Tribe's continued operation of banked card games (such as blackjack) after the authorization expired in 2015. For more information see this [post](#) on the Florida TaxWatch blog. The new Settlement Agreement and Stipulation allows the Seminoles to keep banked card games until 2030.

<sup>2</sup> Total Indian Gaming revenue held in reserve was \$233.8 million, \$7.0 million of which was distributed to local governments. This reserve funds have now been released.

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

FY	March 2017 Estimate	August 2017 Estimate	Change in Estimate	Annual Growth Based on March Estimate	
2016-17	\$29,594.5 (actual)	\$29,558.9	\$35.6	\$1,269.1	4.5%
2017-18	\$30,926.0	\$30,793.8	\$132.2	\$1,331.5	4.5%
2018-19	\$32,201.4	\$32,013.3	\$188.1	\$1,275.4	4.1%
2019-20	\$33,474.9	\$33,278.9	\$196.0	\$1,273.5	4.0%
2020-21	\$34,714.5	\$34,461.7	\$252.8	\$1,239.6	3.7%

*Change in General Revenue Estimates by Source (\$ millions)*

Revenue Source	FY2017-18	FY2018-19	Total
<i>Increased Estimates</i>			
Indian Gaming Revenues*	\$158.8	\$165.1	\$323.9
Corporate Income Tax	\$65.2	\$90.4	\$155.6
Insurance Premium Tax	\$32.8	\$33.6	\$66.4
Corporate Filing Fees	\$16.5	\$14.0	\$30.5
Documentary Stamp Tax	\$6.8	\$6.2	\$13.0
Intangibles Tax	\$5.1	\$6.1	\$11.2
<i>Decreased Estimates</i>			
Sales Tax	(\$143.2)	(\$148.7)	(\$291.9)
Tobacco Taxes	(\$4.7)	(\$2.1)	(\$6.8)
Article V (Court) Fee	(\$0.1)	(\$1.3)	(\$1.4)
Highway Safety Licenses & Fees	(\$3.6)	\$3.4	(\$0.2)
Other Sources**	(\$1.4)	\$21.4	\$20.0
<b>Total</b>	<b>\$132.2</b>	<b>\$188.1</b>	<b>\$320.3</b>
* Does not include \$226.8 million previously held in reserve.			
**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). The latest forecast increased revenue estimates by \$73.9 million in FY2016-17, \$96.9 million in FY2017-18 and 100.5 million in FY2018-19. This would add \$271.3 million to the EETF to be available to the 2018 Legislature. The EETF is now expected to have \$1.935 billion in recurring revenue (including approximately \$196 million in annual slot machine tax revenue) available for the next budget. This is \$157.1 million (8.8 percent) more than FY2017-18 appropriations.

**Ad Valorem (Property Taxes)** - The estimate of total state taxable value used for school property taxes was increased slightly (0.17 percent). However, the new estimate for 2017 Certified School Taxable Value of \$1.904 trillion is \$132 billion (7.4 percent) higher than the prior year. This impacts the mix of state and local funds for PreK-12 education funding. The increase in value would add \$664 million in 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.

**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 available revenue was largely unchanged, but the erosion of this revenue source will continue, as projected annual revenues decrease each year of the forecast. 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 reduced by \$147.4 million (0.6 percent) over the 5-year work program period.

## CONCLUSION

The addition of \$547.1 million to the state coffers is welcome, but since the additional funds from the Indian Gaming forecast are non-recurring, the result is a small deficit (\$30.6 million) in recurring GR in the current budget year, based on net effective appropriations of the 2017 Legislature. However, there is a \$1.46 billion surplus in non-recurring revenue. This suggests the need for the Legislature to take a closer look at recurring revenue and expenditures. That need was raised last fall by the Legislature’s *2016 Long-Range Financial Outlook*.<sup>3</sup>

The *Outlook* estimated that after funding a continuation budget for FY2017-18, there would only be \$7.5 million left over for new initiatives. In addition, budget shortfalls of more than \$1 billion were looming in the next two years. It was estimated it will take some combination of revenue increases or spending decreases worth \$483 million in each year, starting with the upcoming budget, to erase the shortfall in FY2019-20.

The 2016 *Outlook* predicted the 2017 Legislature would have \$31.177 billion in GR to spend. Actual appropriations were \$432 million more than that; however, the Legislature took many actions that impacted the amount of available revenue for FY2017-18 and beyond. To increase funds for the current budget, the Legislature swept \$456.3 million (net of vetoes) from trust funds into GR. They also permanently redirected \$75 million in documentary stamp taxes from an economic development trust fund to the GR fund. And a change in a corporate income tax filing deadline added \$84 million in FY2017-18 at the expense of FY2019-20 revenue. The Legislature also cut taxes but the net result of all these actions was to increase FY2017-18 GR by over \$530 million, but reduce GR in future years by \$25 million – \$30 million annually.

The new GR estimates will be used in formulating the next *Outlook*, which will be released next month. After considering increasing pressures on funding such as more students in public schools and rising healthcare costs, the Legislature will have a new forecast of the budget shortfalls or surpluses over the next

<sup>3</sup> Florida Legislature, Long-Range Financial Outlook, September 2016. For more information, see Florida TaxWatch Budget Watch – Projected Shortfall Requires Action, September 2016.

three years. The 2017 Legislature did attempt to reduce some recurring expenditures, but new initiatives were added as well. It is expected that a thorough review of spending will be in order next session as well.

Next month's Budget Watch will analyze the findings of the new *Long-Range Financial Outlook*.

*General Revenue Budget Outlook (\$ millions)*

GR Available for FY2017-18	Recurring	Non-recurring	Total
Reserve (carried forward)		\$1,363.9	\$1,363.9
Estimated Revenues	\$30,649.4	\$276.6	\$30,926.0
Trust Fund Sweeps		\$456.3	\$456.3
Release of Indian Gaming Reserves		\$226.8	\$226.8
Unused Appropriations/Other Adjustments	\$26.0	\$70.7	\$96.7
<b>Total Funds Available for FY2016-17</b>	<b>\$30,675.4</b>	<b>\$2,394.3</b>	<b>\$33,069.7</b>
<i>GR Appropriations by 2017 Legislature</i>			
2016-17 Appropriations	\$30,705.9	\$802.4	\$31,508.3
Transfer to Budget Stabilization Fund		\$32.1	\$32.1
Reappropriation - Zika Virus Response		\$48.0	\$48.0
Other Reappropriations		\$22.8	\$22.8
Total Effective Appropriations	\$30,705.9	\$905.3	\$31,611.2
<b>Ending Balance</b>	<b>(\$30.5)</b>	<b>\$1,489.0</b>	<b>\$1,458.5</b>
<i>GR Available for Next Budget (FY2018-19)</i>			
Reserve (carried forward)		\$1,458.5	\$1,458.5
Estimated Revenues	\$31,925.2	\$276.2	\$32,201.4
BP Settlement Payment	\$26.7		\$26.7
Unused Appropriations/Reversions		\$98.3	\$98.3
Federal Funds Interest Earnings Rebate	(\$0.4)		(\$0.4)
<b>General Revenue Available for Next Budget</b>	<b>\$31,951.5</b>	<b>\$1,833.0</b>	<b>\$33,784.5</b>
<b>Previous Estimate*</b>	<b>\$32,043.5</b>	<b>\$1,193.9</b>	<b>\$33,237.4</b>
<b>Difference</b>	<b>(\$92.0)</b>	<b>\$639.1</b>	<b>\$547.1</b>
* March 2017 estimates adjusted for action of the 2017 Legislature.			

The monthly Budget Watch is written by **Kurt Wenner, VP of Research**

**Robert Weissert**, Executive VP & Counsel to the President & CEO

**Chris Barry**, Director of Publications

**David Mann**, Chairman of the Board of Trustees, Florida TaxWatch

**Dominic M. Calabro**, President and CEO, Publisher & Editor

Florida TaxWatch Research Institute, Inc.

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