

THE ZIKA VIRUS WILL PLACE ADDITIONAL STRAIN ON THE NEXT STATE BUDGET

In addition to the serious public health risk for Floridians, the Zika virus is also creating risk for the already tight state budget outlook for next year. Although a \$1.1 billion federal funding package was approved by Congress in late September, Florida has yet to receive any of this aid, nor has the amount of the state's allocation been confirmed.

Governor Scott, using his executive authority, has had to dip into state reserves to help fund Florida's Zika detection and prevention efforts. To date, \$61.2 million in General Revenue funding has been authorized. In addition, several state agencies are using existing resources to help in the effort. Costs may rise and there will likely be new Zika-related appropriations in the next state budget. Then there is the potential harm Zika can cause for the tourism industry, which will negatively affect the state's economy and the sales taxes Florida depends so heavily on to fund the state budget.

In last month's *Budget Watch*,¹ Florida TaxWatch reported that the new state *Long Range Economic Outlook* forecast that the 2017 Legislature would have only \$7.5 million to spend on new initiatives, after a continuation budget was funded. Moreover, Florida faced budget shortfalls of more than \$1 billion in both of the subsequent two years. The first Zika-related allocation of \$27.2 million was included in that forecast, but two later allocations totaling \$34.0 million were not.

This makes it more certain that the Legislature will have to make significant reductions to the current budget to fund any new initiatives for next year.

A PUBLIC HEALTH EMERGENCY

Zika fever is a relatively mild illness caused by a mosquito-borne virus similar to those that cause the dengue and West Nile virus infections. Symptoms include fever, rash, joint pain, headaches, eye pain, and nausea. Severe cases requiring hospitalization are uncommon and the illness usually lasts about a week; however, the Zika virus has been linked to serious birth defects, including microcephaly, when contracted by expectant mothers during pregnancy. Besides mosquitos and perinatal transmission, Zika may also be sexually transmitted. There is no specific treatment or vaccine against the virus.

Before showing up in Florida, the Zika virus had been identified in several countries in Central and South America, Mexico, and the Caribbean. Outbreaks have also been previously reported in Africa, Southeast Asia, and the Pacific Islands.

On February 2, 2016, after nine travel-related cases were discovered in Florida, the state Surgeon General declared a public health emergency in regards to the Zika virus. Travel-related cases continued to be discovered frequently and in July, non-travel related (locally acquired) cases began surfacing. There are now 1,114 reported Zika cases in Florida, including 186 non-travel related

¹ See "Projected Future Budget Shortfalls Require Immediate Attention," <http://www.floridatxwatch.org/library/periodicals/budgetwatch/september2016.aspx>

infections and 127 infections of pregnant women.² There are travel-related cases in 37 counties across Florida but the Department of Health believes ongoing transmission is only taking place in two areas of Miami-Dade County: a 4.5 sq. mile area section of Miami Beach and a one sq. mile section of the Little River neighborhood. A third area (Wynwood) has now been taken off the list of areas of active transmission. Despite the limited area of transmission, the director of the Centers for Disease Control and Prevention (CDC), speaking in Miami in October, said Zika is likely more widespread. “A rule of thumb,” director Tom Frieden said, “is that for every case you diagnose, you’ve probably got 10 more.” He also said Zika will “become endemic” in some areas of this hemisphere, returning every year.³

STATE RESPONSE TO ZIKA

The Department of Health (DOH) is the lead agency in addressing the public health crisis caused by the Zika virus. DOH does door-to-door outreach and targeted testing in Miami-Dade County. When a case is discovered, DOH conducts a thorough investigation by sampling close contacts and community members to determine if additional people are infected.

The Florida Department of Agriculture and Consumer Services (DACS) is also playing a large role in the effort. This includes coordinating with local mosquito control agencies to set traps and testing the insects in its laboratories. DACS disseminates traps specifically for the *Aedes aegypti* and *Aedes albopictus* mosquitoes to local mosquito control districts and provides them with training on how to prepare and submit mosquito samples for

testing. The Bronson Animal Disease Diagnostic Laboratory is used to test the mosquito pools for the Zika virus. Since May, DACS has tested more than 5,400 mosquito samples, consisting of more than 70,000 mosquitoes.⁴ Eight mosquito samples have tested positive for Zika, all in the Miami Beach area.⁵

DACS also works with the mosquito control districts on mosquito surveillance and control efforts and provides technical assistance regarding the CDC’s guidelines. The department also has trained private pest control companies in the event they are needed to support the Zika effort.

Other state agencies are also involved. The Department of Business and Professional Regulation (DBPR) is working with hotels, attractions and restaurants in Miami-Dade County to connect them with resources for Zika prevention and education. DBPR is also working with DOH to provide educational materials and mosquito spraying at no cost to Miami-Dade businesses. The Department of Economic Opportunity is surveying businesses to assess their needs and determine what resources can be made available quickly. The Governor also has directed the Department of Environmental Protection and the Fish & Wildlife Commission to support DACS in developing extensive mosquito control plans.

This all costs money. In addition to using current resources, the Governor has authorized the use of additional state General Revenue on three occasions. In July, \$26.2 million was allocated for county health departments, local mosquito districts and laboratories for mosquito surveillance and abatement; training for mosquito control technicians; enhanced laboratory capacity; and

2 As of November 2. Florida Department of Health *Daily Zika Update*, <http://www.floridahealth.gov/newsroom/all-articles.html>

3 Miami Herald, “Zika virus will become endemic, CDC leader says,” October 25, 2016.

4 As of October 18, 2016.

5 Florida Department of Agriculture and Consumer Services, Press Release: “Miami-Dade Mosquitoes Test Positive for Zika,” October 18, 2016.

the purchase of CDC Zika Prevention Kits. In September, another \$10 million was allocated for the same efforts. Later in September, \$25 million was authorized to support research to develop a vaccine against the Zika virus and enhance Zika testing methods. The money will be allocated by DOH through a competitive grant process.

FEDERAL FUNDING APPROVED, BUT WHERE IS THE MONEY?

After months of debate and political wrangling, Congress approved \$1.1 billion to combat the Zika virus in late September. Florida has yet to receive any of the federal aid.⁶ It is unknown how much money will be allocated to Florida. Governor Scott, saying that “Florida is the epicenter of this public health crisis,” recently called on Washington to expedite the allocation of federal funding to Florida and to provide a complete breakdown of planned allocations.⁷ The Governor is also requesting \$45.4 million for Zika through several federal sources.

The Governor had previously made several requests for federal help that he says remain unanswered:

- An additional 10,000 Zika prevention kits;
- A federal match of Florida’s \$25 million investment for research to develop a Zika vaccine;
- The CDC to work directly with the Miami-Dade Mosquito Control District to identify best practices for defeating Zika;
- The CDC to work directly with Miami-Dade County and the City of Miami Beach to develop a plan for controlling Zika-carrying mosquitoes; and

- A detailed plan on how Florida should work with FEMA now that Zika has become mosquito-borne.

STATE REVENUE COLLECTIONS ARE LOOKING UP, BUT WILL IT LAST?

There is some promising news that could lead to more revenue to offset these added costs by providing more funds for the next budget. Actual General Revenue (GR) collections in September 2016 exceeded the latest estimate⁸ by \$96.1 million (4.1 percent).⁹ This follows actual collections that were \$3.7 million and \$34.8 million above estimates in July and August, respectively. This means that actual GR collections during the first three months of the new fiscal year came in \$134.6 million (5.1 percent) above the forecast. This is good news but it is no assurance that the next GR estimates (December 2016) will be increased.

Case in point: Collections in July and August of 2015 were a total of \$107.3 million over estimate. However, September 2015 collections came in \$82.4 million under estimate and the Revenue Estimating Conference subsequently reduced the GR estimate by \$388.5 million over two years. Another reduction of \$267.0 million followed in January 2016.

It should also be noted that corporate income taxes beat the estimate by \$51.7 million—the largest amount of any source. However, it appears that this was largely due to a few atypically large payments, meaning September collections could be an aberration.

6 As of November 2, 2016.

7 Governor’s Press Office, Press Release: “Gov. Scott: President Obama Must Immediately Expedite Zika Funding to Florida,” November 1, 2016.

8 The state’s Revenue Estimating Conference made its latest estimates of General Revenue in August 2106. These are the estimates on which the *Long Range Financial Outlook*—and the projected \$7.5 million shortfall—are based.

9 Florida Office of Economic and Demographic Research (EDR), *Monthly Revenue Report*, Volume 37, Number 3, September 2016.

The most pessimistic sign in the revenue report is the fact that sales taxes exceeded the estimate in every category but one – tourism. Tourism related sales taxes were \$6.0 million (1.5 percent) under estimate, perhaps a harbinger of another cost of the Zika virus. This category accounts for 22 percent of all sales taxes¹⁰ and sales taxes provide more than 75 percent of state General Revenue, so tourism is critical to Florida’s economy and the state budget. The latest sales tax forecast relies heavily on strong tourism growth and it makes no adjustments for Zika-related impacts. Economic studies have shown that tourism is very sensitive to disease outbreaks.¹¹ The Office of Economic and Demographic Research (EDR) concludes that tourism-related revenue losses pose the greatest risk to the economic outlook from Zika.

CONCLUSION

The state has already spent \$61.2 million to combat Zika and the cost will likely increase. There will also likely be a hit on tourism-related revenue. Federal help is coming but Washington’s response continues to be slow.

Florida TaxWatch commends Governor Scott for his efforts in urging Washington to expedite the disbursement of Zika funding to Florida. But Florida efforts in battling the virus cannot wait. The Governor has said he will not hesitate to allocate additional funding and that the state will use its “full resources” to protect Floridians from Zika.

And Zika is not the only additional cost that will further strain the next budget. There will likely be state expenses related to the two recent hurricanes. In addition, recently adopted changes in the actuarial assumptions for the Florida Retirement System will increase its unfunded liability and therefore increase employer (state agency) contributions by an estimated \$90 million next year. Further reductions in the assumed rate of return for the pension fund are expected (stayed tuned for more on this from Florida TaxWatch.)

Florida TaxWatch will continue to monitor budget developments and the next round of revenue and expenditure estimating conferences and report our findings in our *Budget Watch* series.

¹⁰ This category includes all tourism industry-related sales, including sales to Floridians. A recent EDR report estimates that 12.5 percent of all sales taxes are paid by tourists.

¹¹ EDR, *Florida: An Economic Overview*, November 1, 2016.

The findings in this Report are based on the data and sources referenced. Florida TaxWatch research is conducted with every reasonable attempt to verify the accuracy and reliability of the data, and the calculations and assumptions made herein. Please feel free to contact us if you feel that this paper is factually inaccurate.

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