

THE BUDGET OUTLOOK FOR FY2017-18 IS GETTING TIGHTER

Just as they did at their last conference in January, Florida's revenue estimators reduced the state's General Revenue (GR) projections. The GR Estimating Conference met on August 15, 2016 and reduced expected collections by \$131.9 million in the current year (FY2016-17) and by \$131.1 million for the next budget year (FY2017-18). This two-year total reduction of \$267.0 million follows the \$388.5 million reduction made last January.

Actual GR collections in FY2015-16 (ended June 30, 2016) exceeded the previous estimate by \$50.6 million, slightly tempering the impact of the reduced estimates on the next budget.

Even with the reduced estimates, collections for FY2016-17 are about \$1.0 billion (3.6 percent) higher than the previous year and growth of \$1.35 billion (4.6 percent) is expected in FY2017-18.

Back in July, estimators adopted national and state economic forecasts that reflected worries stemming from Brexit and mixed signals from employment data. This resulted in a less optimistic economic outlook that served as the basis for the GR estimates. Estimated sales tax revenues were revised downward by \$434.9 million over two years. Slowing mortgage refinancing activity also led to decreased documentary stamp tax estimates of \$68.2 million. Due to limited opportunities for strong earnings in the current interest rate environment, the state can now also expect lower earnings on its investments, resulting in a \$40.4 million reduction in estimated GR earnings.

It was not all doom and gloom, as estimates for a number of GR sources were increased, most notably corporate income taxes, which were revised upward by a total of \$186.9 million over the two years. Estimates of highway safety licenses and fees and insurance premium taxes were also increased, by \$40.1 million and \$14.3 million, respectively. But in terms of total dollars, the winners were far outpaced by the losers.

Changes in General Revenue Estimates

\$ millions

FISCAL YEAR	JANUARY 2016 ESTIMATE*	AUGUST 2016 ESTIMATE	TRUST FUNDS
2015-16	28,274.8	28,325.4**	50.6
2016-17	29,464.7	29,332.8	-131.9
2017-18	30,822.0	30,686.9	-135.1
2018-19	31,974.0	31,948.2	-25.8

*January estimates were adjusted after the session to reflect the negative Revenue impact of bills passed by the 2016 Legislature: \$42.3 million in FY2016-17, \$67.4 million in FY2017-18 and \$70.5 million in FY2018-19. **Actual.

Changes in General Revenue Estimates by Source

\$ millions

REVENUE SOURCE	FY2016-17	FY2017-18	TOTAL
<i>Increased Estimates</i>			
Corporate Income Tax	\$84.7	\$102.2	\$193.1
Highway Safety Licenses/Fees	\$33.9	\$6.2	\$40.1
Insurance Premium Tax	\$10.4	\$3.9	\$14.3
Corporate Filing Fees	\$3.4	\$6.0	\$9.4
Indian Gaming Revenues	\$5.1	\$4.2	\$9.3
Intangibles Tax	\$3.5	\$3.8	\$7.3
Tobacco Taxes	\$3.2	\$3.8	\$7.0
Other Sources and Refunds	\$7.2	\$9.5	\$16.7
<i>Decreased Estimates</i>			
Sales Tax	(\$229.0)	(\$205.9)	(\$434.9)
Documentary Stamp Tax	(\$28.7)	(\$39.5)	(\$68.2)
Earnings on Investments	(\$19.2)	(\$21.2)	(\$40.4)
Beverage Tax and Licenses	(\$2.8)	(\$6.0)	(\$8.8)
Court Fees	(\$3.6)	(\$2.0)	(\$5.5)
Total	(\$131.9)	(\$135.1)	(\$267.0)

IS THERE STILL A SURPLUS?

When these new estimated revenues are added to the GR reserve expected to be left at the end of this fiscal year, along with reversions and other adjustments, the 2017 Legislature is now expected to have \$32.197 billion available for next budget (see table on page 3). This is \$1.750 billion (5.7 percent) more than is being spent in the current year. This would be the smallest amount of estimated revenues over prior year appropriations¹ since FY2011-12 and the five-year average is \$2.527 billion.²

It should also be noted that the Legislature will very likely leave a minimum of \$1.0 billion in reserves. The average post-budget reserve over the last four years is more than \$1.2 billion. The total amount available for next year also includes \$400 million recently received from BP as part of the final settlement over the Deep Horizon oil spill.³

At least \$300 million of this must be spent on projects in the affected counties, so this money is not discretionary.

When these two factors are considered, the Legislature would only have available no more than \$400 million over current appropriations. Growth in the budgets two biggest programs will eat up most of this.

Nearly 31,000 new students are expected to enroll in Florida public schools next year. At the current per-student funding, these students would cost an additional \$222 million. Based on the percentages of state and local funding appropriated by the Legislature in the current budget, the state would fund \$125 million and the \$97 million would come from school districts through increased property taxes. Increasing per-student funding would cost even more. In addition, more than 200,000 (5.0 percent) more recipients are expected to enter the state's Medicaid program next year.

These new estimates will be used in developing the state's annual *Long Range Financial Outlook* that will

¹ Estimated revenues at the time of budget development by the Legislature

² Calculated by Florida TaxWatch using data from the Florida Legislature, Office of Economic and Demographic research.

³ In total, Florida will receive \$2 billion dollars through 2033. Annual payments of \$106.7 million will begin in FY2018-19.

General Revenue Outlook for the 2017-18 Budget

\$ millions

	RECURRING	NON-RECURRING	TOTAL
<i>GR Funds Available for 2016-17</i>			
Reserve (Carried Forward)		\$1,776.6	\$1,776.6
Estimated Revenues	\$29,362.2	\$(29.4)	\$29,332.8
BP Settlement Payment	\$106.7	\$293.3	\$400.0
Trust Funds Sweeps to GR		\$259.6	\$259.6
Unused Appropriations/Reversions		\$92.6	\$92.6
Federal Funds Interest Earnings Rebate	\$(0.2)		\$(0.2)
Total Funds Available for 2016-17	\$29,468.7	\$2,392.7	\$31,861.4
<i>GR Appropriations by 2016 Legislature</i>			
2016-17 General Appropriations Act	\$29,467.6	\$846.9	\$30,314.5
Reappropriations		\$75.8	\$75.8
Transfer to Budget Stabilization Fund		\$30.7	\$30.7
Budget Amendment - Zika Virus Response		\$26.2	\$26.2
2016-17 Total Effective Appropriations	\$29,467.6	\$979.6	\$30,447.2
Ending Balance (GR Reserves)	\$1.1	\$1,413.1	\$1,414.2
<i>GR Available for Next Budget 2017-2018</i>			
Reserve (Carried Forward)		\$1,414.2	\$1,414.2
Estimated Revenues	\$30,701.5	\$(14.6)	\$30,686.9
BP Settlement Payment	\$106.7	\$(106.7)	\$-
Unused Appropriations/Reversions		\$95.8	\$95.8
Federal Funds Interest Earnings Rebate	\$(0.2)		\$(0.2)
General Revenue Available for FY2017-18 Budget	\$30,808.0	\$1,388.7	\$32,196.7

Source: The Florida Legislature, Office of Economic and Demographic Research and Florida TaxWatch, August 2016.

be released in about a month. The *Outlook* analyzes projected revenues against the increasing cost of a continuation budget to attempt to quantify a surplus or shortfall for the next budget year.

GR estimates will be revised two more times before the Legislature passes the next state budget. An uptick in the forecast is always possible, but the uncertainty of the current global economy carries considerable downside risk. The current estimates did not include any effect from the Zika virus, but that was not because the economists are sure there will not be any, it is just too early to attempt to quantify the impact.

Time will tell if the 2017 Legislature will be facing a budget surplus or deficit. But it is clear, absent significant increases in future revenue estimates, that any potential surplus will not be large. The next legislative budget process will likely involve some redirection of current spending to the Governor and lawmakers' new initiatives. This makes it even more important for the Legislature to implement cost savings and government efficiencies, such as recent recommendations by the Government Efficiency Task Force.⁴

⁴ Final Report of the Government Cost Savings Task Force. Available at: <http://www.floridatxwatch.org/library/2016getf>

ABOUT FLORIDA TAXWATCH

As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the citizens of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

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RESEARCH PROJECT TEAM

Robert E. Weissert	Executive Vice President & Counsel to the President & CEO	
Kurt Wenner	VP of Research	<i>Author</i>
Chris Barry	Director of Publications	<i>Design, Layout & Graphics</i>

All Florida TaxWatch research done under the direction of
Dominic M. Calabro, President, CEO, Publisher & Editor.

FOR MORE INFORMATION: WWW.FLORIDATAXWATCH.ORG

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