

REVENUE COLLECTIONS CONTINUE TO EXCEED EXPECTATIONS, PROVIDING AN ESTIMATED \$657.5 MILLION MORE FOR THE NEXT STATE BUDGET

With actual revenue collections exceeding expectations, the state General Revenue (GR) Estimating Conference increased its forecast of GR in each of the five years in its outlook horizon. The estimates were increased for the current year (FY2015-16) by \$287.3 million (1.0 percent), and by \$175.0 million (0.6 percent) for the next budget year (FY2016-17). Total collections for FY2016-17 are now forecast at \$29.581 billion, which represents growth of 4.7 percent over the current year.

These estimates are important because the amount appropriated by the Legislature cannot exceed the amount officially forecast to be collected in the fiscal year. GR is the money for which legislators have the most discretion; it can be spent on most anything in the state budget. GR is a major source of revenue for education, human services and public safety and corrections. When there is a discussion of a state budget shortfall or surplus, it is generally GR that is being considered.

In addition, actual GR collections during the fiscal year ending June 30, 2015 exceeded the estimate by \$195.2 million (0.7 percent). This extra money already in state coffers, coupled with the new estimates, means that legislators will have \$657.5 million more for the next state budget than was anticipated following the 2015 Special Session. To put it in another perspective, this additional revenue is enough to pay for the two-year GR impact of the 2015 Legislature's tax cut package.

Changes in General Revenue Estimates

(\$ millions)

FY	March Estimate	August Estimate	Change
2014-15	\$27,485.9	\$27,681.1*	\$195.2
2015-16	\$28,126.8	\$28,414.1	\$287.3
2016-17	\$29,581.2	\$29,756.2	\$175.0

*actual

The March estimates have been adjusted for all the bills passed by the Legislature during the 2015 Regular and Special Sessions. These changes reduced the GR estimates by \$597.0 million in FY2015-16 and \$590.2 million in FY2016-17. A large portion of this impact comes from the tax cut package: \$341.5 million and \$278.8 million in those two years, respectively. The implementation of Amendment 1¹ also significantly affected revenues, reducing GR by \$156.1 million in FY2015-16 and \$209.9 million in FY2016-17. The other major measure affecting GR this fiscal year and the next was a bill to redistribute funds from GR into the State Transportation Trust Fund (\$99.1 million \$101.3 million, respectively.)²

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

Revenue Source	FY2015-16	FY2016-17	Total
<i>Increased Estimates</i>			
Sales Tax	\$184.0	\$178.2	\$362.2
Corporate Income Tax	\$141.4	\$181.8	\$323.2
Indian Gaming Revenues	\$44.7	\$7.1	\$51.8
Documentary Stamp Tax	\$24.4	\$24.1	\$48.5
Intangibles Tax	\$19.6	\$20.8	\$40.4
Insurance Premium Tax	\$3.8	\$16.9	\$20.7
Corporate Filing Fees	\$7.9	\$9.0	\$16.9
Tobacco Taxes	\$4.8	\$5.0	\$9.8
<i>Decreased Estimates</i>			
Alcoholic Beverage Tax	(\$73.1)	(\$130.3)	(\$203.4)
Earnings on Investments	(\$25.3)	(\$66.6)	(\$91.9)
Court Fees	(\$15.0)	(\$19.5)	(\$34.5)
Parimutuels Tax	(\$1.8)	(\$1.8)	(\$3.6)
Highway Safety Licenses/Fees	\$1.2*	(\$2.1)	(\$0.9)
Other Sources and Refunds	(\$27.0)	(\$44.2)	(\$71.2)
Total	\$287.3	\$175.0	\$462.3

Actual collections in FY2014-15 came in \$195.2 million over the March estimate

**Estimates of Highway Safety Licenses & Fees were increased in FY2015-16, but were decreased over the two-year total.*

¹ In November 2014, Florida voters approved an amendment to the Florida Constitution which mandates that 33 percent of all documentary stamp tax revenues goes into the Land Acquisition Trust Fund for conservation land purchases and other environmental uses. This reduces the amount of these taxes that go into GR.

² Senate Bill 2514A changes the distribution of the "new wheels fee" that is levied on the initial registration of a motor vehicle, eliminating the 41.2 percent distribution to GR. These funds will now be used for transportation purposes, including the establishment of a network of bicycle and pedestrian trails around Florida.

ESTIMATES ARE A SIGN OF CONTINUED ECONOMIC RECOVERY

GR collections in the fiscal year that ended in June (FY2014-15) exceeded the previous record of \$27.075 billion in FY2005-06. That high-water mark was followed by three years of decreasing collections. Total collections are expected to grow another 2.6 percent in FY2015-16, reaching \$28.414 billion. Growth of another 4.7 percent is expected in FY2016-17, bringing revenue to \$29.756 billion.

Looking further out, the estimates for the next three years were also increased significantly, with a larger increase in each successive year. The estimates were increased by: \$276.9 million (0.9 percent) in FY2017-18; \$358.3 million (1.1 percent) in FY2018-19; and \$493.8 million (1.5 percent) in FY2019-20. Total GR collections are now expected to approach \$35 billion by FY2020-21.

The estimates for some GR sources, notably alcoholic beverage taxes and investment earnings, were reduced; however, most sources were increased, including all the largest contributors.

Throughout the forecast, the state's largest revenue source—the sales tax—performed better than anticipated, with estimates increased by \$362.2 million over the two-year period of FY2015-16 and FY2016-17. This reflects the Conference's expected strong growth in tourism and motor vehicle purchases. Sales taxes are expected to bring in \$21.957 billion this year, which accounts for 77.3 percent of total GR.

The second largest GR provider—the corporate income tax—had the largest percentage estimate increase of all of the major sources. The two-year increase of \$323.2 million represents an average annual increase of 7.3 percent. Although the conference forecasts strong corporate profits, it cautions that international economic uncertainty creates higher than normal downside risk.

Estimates for real estate taxes (documentary stamp and intangibles taxes) were increased by \$88.9 million. However, total documentary stamp revenue is only 57.5 percent of its pre-recession peak, and intangibles taxes are less than one-third of its previous high.

HOW DO THE NEW ESTIMATES AFFECT THE UPCOMING BUDGET?

The new estimates are certainly good news, as legislators will have \$657.5 million more available for the next state budget than was anticipated following the 2015 Special Session. This is after tax cuts and other measures affecting revenue which reduce available GR, as well as budget vetoes and trust fund sweeps that increase available GR.

After all these factors are taken into account, the new estimates mean that the legislature will have \$31.558 billion in GR available for the next budget (including unspent reserves carried forward.)

This is \$2.222 billion more than current year appropriations. Available recurring revenues of \$29.881 billion are \$1.627 billion more than recurring spending in the current budget. Non-recurring funds account for \$1.678 billion of the revenue available for the next budget. It can be assumed that legislators will attempt to leave cash reserves that approach that amount (they left \$1.227 billion in reserve last session.)

This does not mean that legislators will have a \$1.6 billion surplus next session. There will be increased costs, such as almost 26,000 new public school students and an estimated \$500 million more in Medicaid costs.

There are many different factors affecting Florida's revenue and appropriations process. The budget outlook for next year will become clearer when the Legislature adopts the annual *Long Range Financial Outlook* in the Fall. 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.

These GR estimates will also be revisited again before lawmakers develop the next state budget when they meet in session beginning in January 2016.

Besides the General Revenue Estimating Conference, there are conferences on a number of other revenue sources which fund various trust funds. There are also conferences to forecast things that drive appropriations, such as public school enrollment and Medicaid caseloads and expenditures. The Florida TaxWatch *Budget Watch* series will continue to keep you updated on budget developments.

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.

Florida TaxWatch is supported by voluntary, tax-deductible donations and private grants, and does not accept government funding. Donations provide a solid, lasting foundation that has enabled Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves for the last 35 years.

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.

The research findings and recommendations of Florida TaxWatch do not necessarily reflect the view of its members, staff, Executive Committee, or Board of Trustees; and are not influenced by the individuals or organizations who may have sponsored the research.

106 N. Bronough St., Tallahassee, FL 32301 o: 850.222.5052 f: 850.222.7476
Copyright © August 2015, Florida TaxWatch Research Institute, Inc. All Rights Reserved.