

## WHAT THE GOVERNMENT SHUTDOWN AND POTENTIAL DEBT CEILING CRISIS MEAN TO FLORIDA

### THE SHUTDOWN

Differences between parties in the U.S. Congress have created a situation where the federal government does not have the statutory authority to spend money on many departments and programs, which has effectively shut down the federal government.

Congress has not passed an omnibus spending bill since April 2009, and has relied on continuing resolutions for funding. The most recent one expired at the end of September. This budget crisis and the January 1, 2013 "sequester" are a continuation of the failure of Congress to pass which has negatively affected both the U.S. and Florida economies.

There are both direct and indirect impacts to the Florida economy. Direct impacts include costing Florida millions of dollars in tax receipts since thousands of federal employees in Florida have been furloughed, which decreases their disposable incomes

and consumption. Given Florida's dependence upon sales and use taxes—indeed more than 70 percent of Florida's general revenue comes from these taxes—anything that decreases consumption affects Florida's tax receipts.

Everglades National Park usually hosts around 2,700 visitors per day in October, but is currently closed.  
Photo: SFWMD

#### **Selected Florida areas - Number of Federal Employees (2012)**

Total Federal Employment in Florida - 132,747

Miami-Fort Lauderdale-West Palm Beach MSA - 33,716

Tampa-St. Petersburg-Clearwater MSA - 22,043

Jacksonville MSA - 17,217

Orlando-Kissimmee-Sanford MSA - 12,248

Fort Walton Beach-Crestview-Destin MSA - 8,085

Cape Coral-Fort Myers MSA - 2,396

Tallahassee MSA - 1,903

Source: Bureau of Labor Statistics



The main indirect impact is that the shutdown creates uncertainty for both businesses and individuals – both of whom spend and invest less during periods of higher uncertainty. Several key Florida industries have been hurt, including tourism, education, retail, and those sectors of the economy that require significant amounts of capital investment.

Tourism has been affected with the closing of national parks and museums located in Florida, such as the Everglades National Park. In addition, small businesses that depend on visitors have seen drops in income during this period, and some may go out of business because of it.

### THE DEBT CEILING IS A MUCH LARGER ISSUE

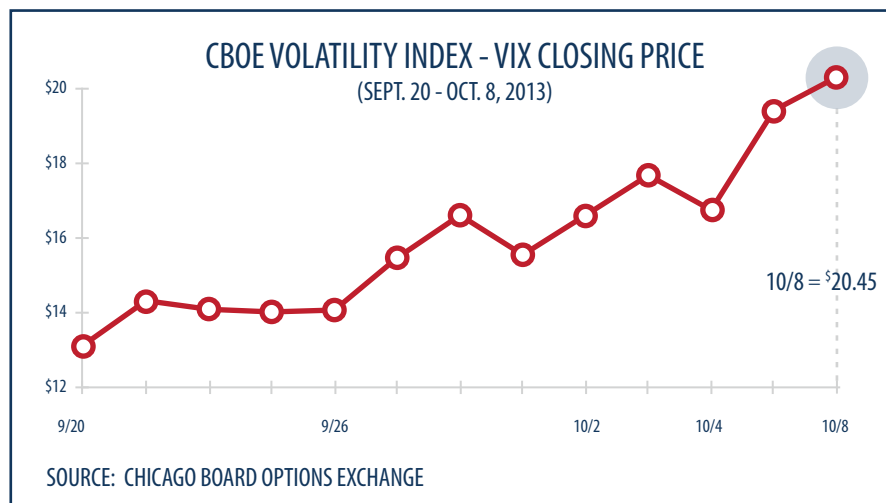
While the shutdown has a substantial negative impact on Florida and other states' economies, the much larger issue is coming up later this month: reaching our national debt ceiling. Doing so will not allow the U.S. meet its current financial obligations. These obligations not only include Social Security, disability payments, and services provided to the population such as food assistance and Medicare<sup>1</sup>, but also paying those who have loaned money to our government. The U.S. has not defaulted on its foreign obligations since 1790 – therefore this potential default would have wide-ranging effects.

If the U.S. government defaults on its obligations, it will result in bond rating downgrades. We could expect higher interest rates on future borrowing, costing U.S. taxpayers substantial amounts of higher interest payments. This will translate into less investment in productive capital, something necessary for higher levels of economic growth.

The United States is projected to reach its debt limit on October 17. Two years ago, our country almost reached the limit, but passed a continuing resolution at the last minute. The effects of the uncertainty associated with that action, according to a recent report by the U.S. Treasury, included slow job growth, decreased consumer and business confidence, very volatile markets, and a debt downgrade. While no solution is in sight yet, the Speaker of the House, John Boehner, has repeatedly said that he will not allow the government to default.

The probabilities of a U.S. default are increasing, according to financial markets. One way to gauge the market's probability is to look at the Chicago Board Options Exchange (CBOE)'s Volatility Index, the VIX. The VIX shows the market's expectation of volatility in the S&P 500 over the next 30 days. It's often referred to as the "Investor Fear Gauge." This financial market indicator has increased by nearly 48 percent since September 20<sup>th</sup> (see chart below).

<sup>1</sup> U.S. Treasury. October 3, 2013.



Another way to examine the market probabilities of a default is to analyze the yields on one-month Treasury bills. A spike in yields on this short-term bill would be an indicator that investors are avoiding the market and only willing to purchase these bonds at significant discounts. These bonds that were, as of September 20, on the secondary market at .01 “bank discount” were trading at .15 on October 7 – a substantial discount compared to recent values.

### IMPORTANCE OF CAPITAL INVESTMENT TO ECONOMY

Investment fuels economic growth. However, current uncertainty is holding back investment. Adding to this uncertainty is the fact that there was no jobs report released on October 4<sup>th</sup>, which usually triggers market movements after its release because of the shutdown.

Besides businesses delaying investments in productive capital and hiring people, the uncertainty will delay some home purchases by individuals. This is due to buyers not being able to get records from the mostly shut-down IRS. This will hurt not only the buyers and sellers, but also mortgage lenders, banks, and will reduce Florida’s collection of documentary stamp fees.

The state of Florida, like most other states, has experienced sluggish growth since the end of the Great Recession. The uncertainty created by these actions is likely to further hinder this growth and could potentially return the U.S. to a recession if necessary fiscal action is not taken.

### FLORIDA AS AN EXAMPLE TO FOLLOW

The Federal Government could learn some lessons from the Florida state government. Florida has a constitutionally-required balanced budget, and passing a balanced budget is the sole requirement of the Florida Legislature every year. Something that is not required, but has impacted Florida in a positive manner is the fact that Florida has paid off \$3.6 billion in debt during the last three fiscal years.

FISCAL YEAR	DEBT PAID OFF
2011	\$500 million
2012	\$1.5 million
2013	\$1.6 million

Source: State of Florida 2012 Debt Affordability Report

This, as well as the improving budget situation, has improved Florida’s credit rating with bond rating agencies. However, the downside risk for Florida of this fiscal crisis is that it may cause a drop in revenue collections.

The most recent Revenue Estimating Conference has projected an \$845.7 million surplus (some from recurring and some from non-recurring sources) even when a \$1 billion addition to reserves are included.

The lack of action in Washington D.C. will affect these projections if it is not solved very soon.



Snorkeling in Biscayne National Park, also closed due to the shutdown.

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