

Budget Outlook

FOR FY 2013-14



September 2012

No Shortfall Expected

This Summer's round of state estimating conferences was the basis for the constitutionally required *Long-Range Financial Outlook* that was just released and adopted by the Legislative Budget Commission. For the first time in several years, if the forecast holds, the 2013 Legislature will not be facing a shortfall to fund a continuation budget. In fact, no shortfall exists through the three-year horizon of the *Outlook*. This surplus exists even with an allowance for a \$1 billion cash reserve.

Last year, lawmakers were facing a more than \$1 billion General Revenue (GR) shortfall when they entered the 2012 session. They closed the gap with a mixture of revenue adjustments and spending reductions. The revenue adjustments—mostly trust fund sweeps—were one time boosts, but the \$355 million in recurring expenditure reductions helped this year's budget outlook.

In addition, GR for FY 2011-12 came in \$407 million over what had been anticipated when the FY 2012-13 budget was developed. This money, along with a slight increase in the FY 2012-13 revenue estimate, will be available for the next budget. GR in FY 2013-14 is now estimated at \$25.9 billion, \$1.2 billion (5 percent) over the current year. With these revenues and money carried forward, lawmakers will have \$27.5 billion in GR for the next budget.

\$25.9_b

GR collections in FY 2013-14 are now estimated at \$25.9 billion, \$1.2 billion over the current year.

Budget Outlook FY 2013-14

General Revenue Expenditures (\$ in mil.)	Recurring	Non-Recurring	Total
2012-13 Base Budget	\$ 24,623.2	\$ -	\$ 24,623.2
Transfer - Chiles Endowment Fund	0.0	18.2	18.2
Transfer - Budget Stabilization Fund	0.0	214.5	214.5
Increase - Critical Needs	484.6	89.1	573.7
Increase - High Priority Needs	696.5	320.3	1,016.8
Cash Reserves	0.0	1,000.0	1,000.0
Total Needed for Continuation Budget	\$ 25,804.3	\$ 1,642.1	\$ 27,446.4
Available General Revenue	25,563.8	1,953.9	27,517.7
Balance	\$ (240.50)	\$ 311.80	\$ 71.30

Funding a Continuation Budget for FY 2013-14

$$\begin{array}{rclclcl}
 \$24.6_b & + & \$18.2_m & + & \$214.5_m & + \\
 \text{Recurring expenditures} & & \text{Owed to the Chiles} & & \text{Owed to the Budget} & \\
 \text{from FY 2012-13 budget} & & \text{Endowment Fund} & & \text{Stabilization Fund} & \\
 \\
 \$1.6_b^* & + & \$1.0_b & = & \boxed{\$27.4_b} & \\
 \text{Forecasted growth in} & & \text{To be left in Reserves} & & \text{Needed to fund a} & \\
 \text{expenditures this year} & & & & \text{continuation budget} &
 \end{array}$$

The revenue to cover a continuation budget is expected to be available, but just barely, leaving a surplus of \$71.3 million

*Growth in Expenditures

The forecasted growth in expenditures of **\$1.6 billion** is made up of two categories. **Critical Needs** are mandatory increases based on estimating conferences and other essential items, representing the minimum cost to fund the budget without significant programmatic changes. **High Priority Needs** are historically funded issues that are typically viewed as “must funds” in normal budget years.

\$462m **Human Services** – \$287 million is for increased Medicaid expenditures, mostly for a 4.5 percent increase in caseloads. Other needs include \$86 million for Children and Family services, \$30 million to restore hospital rate reductions, \$21 million for the developmentally disabled and \$14.5 million for increased costs for the constitutionally required Tobacco Awareness campaign.

\$204m **Education** – Increased K-12 enrollment will cost \$183.5 million, which is offset in part by a higher than expected increase in the tax rolls for school property taxes (see section on Ad Valorem Estimating Conference below). Increased enrollment in Voluntary Pre-K requires another \$20 million. For colleges and universities, enrollment will add \$81 million, \$17 million would continue appropriations funded with non-recurring revenue in the current budget and \$22 million is needed for operational costs for newly opened facilities.

\$157m **Transportation/Economic Development** – The Department of Transportation’s work program is not funded with GR so transportation system needs are not reflected here. Economic development and workforce programs require an additional \$115 million, \$17 million is for state disaster funding, \$16 million is allocated for Department of State library, cultural, historical and election needs, and \$9 million is for National Guard Amories.

\$110_m

Natural Resources – Everglades Restoration costs are projected at \$32 million, \$42.5 million is included for environmental land acquisition and restoration, and \$9 million in GR is needed for environmental programs that are funded with documentary stamp taxes, due to reduced collections from that source.

\$70_m

Criminal Justice – Because prison population is expected to stay flat, no additional money is needed there. However, since planned privatization of prison and inmate health care did not happen, \$50 million is needed to restore budget reductions that were made in anticipation of cost savings.

\$45_m

General Government – State law requires the legislature to provide money to fiscally constrained counties to offset property tax reductions arising from two constitutional amendments (the *Outlook* provides \$25.5 million). Another \$13 million is needed for a variety of general government needs, including the One-Stop Business Registration Portal.

\$541_m

Administered Funds (Statewide Issues) – The largest added expense in the *Outlook* is \$536 million (\$448 million GR) to fund the unfunded liability in the Florida Retirement System. \$137.5 million (\$93 million GR) is needed for increased costs in State Employee Health Insurance and Risk Management Insurance. Another \$25 million is needed for maintenance and repair of state buildings.

Important to Note

There are a couple of caveats to the good news about an anticipated surplus. There is actually a shortfall between recurring revenues and recurring expenditures of \$240.5 million. There are enough non-recurring funds to cover that shortfall. Also, \$71.3 million is not a very big surplus, leaving little for new initiatives. If the legislature wants to do things like increase per-student spending or offer tax cuts, budget cuts will have to be made to accommodate those.

The state's estimators will meet two more times before the 2013 Session and estimates do change. It should be noted that the last budget outlook anticipated no shortfall for 2012, but subsequent reductions in revenue estimates led to a \$1.2 billion shortfall for the legislature to deal with.

For more information, see the *Long-Range Financial Outlook* [here](#).

The next few pages recap the results from the most recent individual Revenue Estimating Conferences.

Highlights of the Latest Revenue Estimating Conferences

General Revenue Estimating Conference - The new forecast for the next few years does not differ much from the last one made in January 2012. One piece of good news is that actual collections for FY 2011-12, which ended June 30, 2012, came in \$407.1 million higher than what was estimated in January. However, that increase was due largely to one-time events, not from underlying strength in the economy. This money will increase the state's cash reserves to \$1.6 billion, which will be available to the 2013 Legislature as non-recurring revenue for the 2013-14 budget.

Estimated GR collections were increased by only \$31.5 million (0.1 percent) for FY 2012-13. Collections for FY 2013-14 were decreased by \$5.3 million. Growth rates for FY 2014-15 and FY 2015-16 were also reduced.

GR collections for FY 2012-13 are now estimated at \$24.632 billion—a little more than \$1 billion (4.3 percent) over the previous year. Revenue is expected to grow another \$1.2 billion (5.0 percent) in FY 2013-14.

The state economists repeated a now familiar refrain from previous conferences, warning that lingering trouble in the Eurozone and the potential impact on credit markets inject downside risk to the forecast. The recovery has been underway since spring 2010, but the Conference still predicts a slow return to normal conditions.

The 2013 Legislature is now expected to have \$27.545 billion in GR for the next state budget—\$2.6 billion more than the current year's total GR appropriations. However, of this amount \$25.564 billion is recurring revenue, which is only \$1.0 billion more than current recurring appropriations.

Lottery and Slot Machine Estimating Conferences - Net revenues from the lottery (after prizes, retailer commissions and administrative costs), along with slot machine revenues, go into the Educational Enhancement Trust Fund (EETF) for the sole purpose of funding education. This has implications for the projected budget shortfall because if revenues are not sufficient to continue funding of the EETF programs that are in the current budget, GR would have to be used to maintain them. Stronger than expected sales in the Florida Lottery's games led to the Lottery Estimating Conference increasing its forecasted distributions into the EETF by \$140.5 million over the three year period from FY 2011-12 to FY 2013-14. The Lottery is expected to bring in \$1.376 billion for education in the next budget year, \$21 million more than the current year.

However, the new forecast for slot machine revenues were reduced by \$9.2 million over the three year period, mostly due to the later than expected opening of two facilities. These new estimates mean that EETF revenues will exceed appropriations by \$101.8 million in the current budget year (FY 2012-13). Rolling those reserves forward and adding the increased estimates for next year and the 2013 Legislature will have \$1.660 billion in educational enhancement funds to spend. This is \$169 million (11 percent) more than the \$1.491 billion appropriated in the current budget.

\$1.376b

Estimated revenue for
public education from
the Lottery in FY2013-14

Transportation Revenue Estimating Conference - This conference adopted a significant increase in its forecast of dollars flowing into the State Transportation Trust Fund (STTF) – which funds the Department of Transportation’s Work Program. Estimated revenues to the STTF were increased by \$1.2 billion (6.9 percent) over the five year Work Program period ending in FY 2017-18.

The estimates for the largest source of STTF revenues – fuel taxes – were increased due to stronger than expected fuel consumption. Estimates of revenue from the rental car surcharge were also increased due to stronger tourism.

\$1.2b

Estimated increase in STTF revenues over the 5-year work program.

While important for transportation and Florida’s economy, the revenues have no direct impact on GR and the size of a potential budget shortfall or surplus for next year. However, the legislature often “sweeps” revenue from the STTF to shore up GR.

Documentary Stamp Tax Estimating Conference - Documentary stamp taxes have been greatly affected by Florida’s economic woes, since real estate transactions provide most of the revenue. Doc stamp collections reached a peak of \$4.1 billion in FY 2005-06. The forecast for next year is only \$1.4 billion. The large inventory of unsold homes and a still tight credit market are dampening construction and sales. Still, FY 2012-13 should be the third straight year of increased collections, following four years of decline. Growth in FY 2013-14 is forecast at 11.9 percent, due mostly to refinancing through the federal Home Affordable Refinance Program. Growth is expected to continue in the near future, but at lower levels.

3 years

of **increased** Doc Stamp collections, following 4 years of decline

Doc stamps revenue are distributed to the General Revenue Fund and a variety of trust funds for environmental, housing, economic development and transportation programs. Due to a decrease in the amount of debt service needed for Florida Forever and Everglades Restoration, the amount going into GR for the next budget will increase to \$458 million, up from \$266 million in the current year.

Ad Valorem Estimating Conference - While property taxes are a local revenue source, the tax roll has major implications for the state budget. Each year, the Legislature sets Required Local Effort (RLE) – i.e., the millage rate local school districts must levy in order to participate in the Florida Education Finance Program. If taxable value across the state falls, the Legislature must either mandate a property tax rate increase or make up the difference with GR.

The tax roll (school taxable value) for next year is estimated at \$1.384 trillion dollars. This is an increase of only 0.75%, but it is the first annual increase after five years of decline. This growth rate is forecast to begin improving – 3.1 percent in FY 2014-15, 3.9 percent in FY 2015-16 and 4.5 percent in FY 2016-17.

For RLE, the value of one mill in FY 2013-14 is \$1.329 billion, up by \$46 million from this year. This means if the Legislature keeps the same millage rate as the current year, \$117 million in additional revenue will be raised. The same millage rate would raise \$237 million more the following year and \$310 million more in 2015-16.

Gross Receipts Tax and Communication Services Tax (CST) Estimating Conference –

The conference reduced its estimates of tax collections from these two sources in each year of the forecast. However, there is expected to still be annual growth, albeit small. Next year, gross receipt tax collections are expected to increase by \$24 million (2.3 percent) and CST collections should rise by \$10 million (1.0 percent).

Almost 90 percent of CST collections go into GR. Gross receipts tax collections are used to fund the **Public Education Capital Outlay Program (PECO)** which addresses educational facilities construction and fixed capital outlay needs for school districts, the Florida College System, and the State University System.

Traditionally, after paying debt service, proceeds are bonded to pay for construction projects. For the third straight year, there is expected to be no bonding capacity for education facility construction. If the legislature wants to fund such projects it will have to use GR or lottery funds, as it did last year. There is expected to be bonding capacity next year and beyond, but estimates of the amounts available were reduced significantly.