

BUDGET WATCH



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Next Year's Budget Outlook Begins to Take Shape through a Series of Estimating Conferences

The Great Recession has brought some very tough fiscal times to Florida. The last three budgets have been real struggles for legislators and next year may be the largest shortfall yet. There has been much talk about a \$5 billion to \$6 billion shortfall facing the 2011 Legislature, but the real number is still unknown. This summer, the state's Consensus Estimating Conference is holding a series of conferences to bring more clarity to the budget outlook. This report is the first in a series of Budget Watches examining the results of these conferences and their impact on the state budget picture.

The \$5 billion to \$6 billion shortfall estimate comes from last year's *State of Florida Long-Range Financial Outlook* report, released last Fall by the Florida Legislature.¹ The annual production of this very valuable tool was added to the state Constitution by the voters in 2006. The *Outlook* "provides an opportunity to both avoid future budget problems and maintain more financial stability between state fiscal years... by providing a longer-range picture of the state's fiscal position that integrates projections of the major programs driving Florida's annual budget requirements with the revenue estimates."²

First, let us look at what "shortfall" means in this context. The *Outlook* focuses on General Revenue (GR), comparing estimated available revenue to estimated spending. Spending is estimated by first looking at the recurring general revenue expenditures in the previous budget and adding expenditures needed to meet "critical needs" (such as

¹ "State of Florida Long-Range Financial Outlook Fiscal Year 2010-2011 through 2012-13: Fall Report 2009 As adopted by the Joint Legislative on September 15, 2009," Jointly prepared by the following: The Senate Policy and Steering Committee on Ways and Means; The House Full Appropriations Council on Education & Economic Development; The House Full Appropriations Council on General Government & Health Care; The Legislative Office of Economic and Demographic Research; Available at www.flsenate.gov/data/publications/2009/Senate/reports/Long-RangeFinancialOutlook2010-2013.pdf

² Ibid. Page 3.

annualizations and increases based on estimating conferences) and “other high priority needs” (historically funded issues.) The *Outlook* explains “Critical Needs can be thought of as the absolute minimum the state must do absent significant law or structural changes, and Other High Priority Needs in combination with the Critical Needs form a highly conservative continuation budget.”³

In other words, estimated expenses assume most everything in the GR budget will be funded again, adjusted upward for factors such as caseload and price increases. It also includes major trust fund shortfalls that would need to be made up with GR. It does not assume any potential budget cutting or cost saving measures.

Here is the estimate from last year’s *Outlook*:

GR Available for FY 2011-12 Budget	\$24.0 billion
FY 2010-11 Recurring GR Expenditures	\$23.2 billion
Difference	\$800 million
\$\$ Needed for “Continuation Budget”	
“Critical Needs”	\$2.9 billion
“High Priority Needs”	\$3.1 billion
Pay back the Budget Stabilization Fund	\$0.2 billion
Shortfall “Critical Needs”	\$2.33 billion
Shortfall “Critical & High Priority Needs”	\$5.47 billion

The current round of estimating conferences is leading up to a new State of Florida Long-Range Fiscal Outlook, which must be released by September 15. Since last year’s report, the factors leading to the shortfall estimate have changed or will be changed. It now looks like there will be more GR available (even before the GR Conference later this month) and the 2010-11 budget contained a bit less GR spending than anticipated. This is discussed in greater detail later in this Budget Watch.

This report will examine the final official tally of revenue impacts of all the legislation passed by the 2010 Legislature and the latest General Revenue Financial Outlook Statement – which establishes the amount of cash reserves for the current fiscal year, gives the final amount of all GR appropriations and provides a preliminary estimate of GR available for the next budget. Next week, we will release another Budget Watch with the results of the National and Florida Economic Estimating Conferences and conferences dealing with budget drivers such as Medicaid, school enrollment and voluntary pre-K. Another report will detail the results of various revenue estimating conferences, including Lottery, Transportation, Tobacco, Ad Valorem and the big one – General Revenue.

³ Ibid. Page 5.

Measures Affecting Revenues (2010 Session)

In mid-July, the Consensus Estimating Conference produced its “Measures Affecting Revenues” document, which is the final official scoring of all the legislation passed during the previous session that affects revenue (general revenue, trust funds, and local). The revenue impacts are estimated annually through FY 2013-14.

General Revenue. The bills passed by the 2010 Legislature will provide an additional \$240.4 million for the General Revenue Fund in FY 2010-11. These net additional revenues are largely non-recurring, as the total additional GR produced by this legislation falls to \$62.6 million in FY 2011-12. However, estimated additional revenue rebounds to \$133.0 million and \$138.3 million in the following two years (2012-13 and 2013-14).

The biggest change for GR was the Seminole Gaming Compact and the related changes to pari-mutuel taxation. The Compact is expected to bring in \$145.5 million in new GR in both FY 2010-11 and FY 2011-12, growing to \$226.0 in each of the following two years. This revenue is in addition to the \$287.5 million that was already collected by the state under the original non-ratified compact and held in escrow. That revenue is credited in FY 2009-10 but was available for the FY 2010-11 Budget (current budget).

Additional revenue from increased operating hours and pot limits for cardrooms, quarter horse racing changes and a new slot machine license for Hialeah Park is expected to offset losses from reducing the cost of all slot machine licenses.

The next largest GR impact comes from the Tax Amnesty Program, recommended by the Florida TaxWatch Government Cost Savings Task Force (GCSTF). This program, which is currently running from July 1 to September 30, is an opportunity for taxpayers to voluntarily pay overdue taxes with no penalty and reduced interest. It is expected to bring in an additional \$166.4 million (\$131.5 million in GR) this year, which will be offset a bit by an estimated \$55.2 million reduction in FY 2009-10 due to the REC’s expectation that awareness of the program led some taxpayers to hold off on their FY 2009-10 payments until the amnesty period.

Two other GCSTF recommendations will also bring in additional revenue. Ceasing to waive late corporate filing fees and 25 additional state tax auditors will bring in a combined \$17.5 million in 2010-11 and \$14.8 million annually afterwards.

The “red light camera” bill is expected to raise \$49.9 million (\$30.3 million GR) in FY 2010-11, increasing to \$209.6 million (\$103.7 million GR) in FY 2013-14.

Significant reductions to GR in FY 2010-11 include the back to school sales tax holiday (\$21.3 million) and the expanded Corporate Tax Credit Scholarship Program (\$31.0

million). The amount of the Scholarship Program's tax credits could grow to \$228.8 million in the future, but these credits will more than pay for themselves as students are removed from the public school rolls, reducing the need for state expenditures.

The economic development package passed by the Legislature, containing an assortment of tax credits, exemptions and incentives aimed at job creation, will cost the state \$17.4 million in GR in FY 2010-11. This will grow to \$72.3 million next year when the most costly component – the film and entertainment industry tax credits – kicks in. These figures do not include any potential increased revenues from economic development.

Trust Funds. 2010 legislation will decrease estimated trust fund revenues by \$795.7 million in FY 2010-11, but this is due to the first bill the Legislature passed last session, delaying a huge and potentially crippling unemployment compensation (UC) tax increase. The state will continue borrowing from the federal government to meet its UC obligations. A number of other bills variably impacted trust fund revenues, but had added a net positive of \$2.0 million.

The largest non-UC trust fund impact for FY 2010-11 is an estimated \$25 million reduction in revenue to the Educational Enhancement Trust Fund from the reduction in the slot machine tax rate. This change was done to help state facilities compete with the Seminole casinos and is expected to be offset in the future through increased play and a new slot facility at Hialeah Park that begins next year.

In order to provide more funding for higher education building projects, the Legislature increased the gross receipts tax and decreased the communications services tax by the same amount. This change is basically a fund transfer, adding \$18.6 million to the Public Education Capital Outlay Trust Fund, while General Revenue will lose \$16.5 million and local governments will lose \$2.1 million.

Local Governments. Legislation passed in 2010 will also help local governments, providing \$31.2 million in additional revenue in FY 2010-11. Most of this – \$27.3 million – comes from the Tax Amnesty program. Red light cameras will bring in \$12.1 million to make up for some law changes with negative local impacts. The red light camera bill is expected to bring in \$81.6 million annually to local governments by FY 2013-14.

The Legislature also provided a potential new revenue source to 11 counties by expanding eligibility for the local option Transportation System Surtax. This 1% sales tax, if approved by the voters in each of the 11 newly eligible counties, would raise \$230 million annually. Since the estimating conference process only considers current law, these dollars are not included.

General Revenue Financial Outlook Statement

This statement totals all general revenue available in a budget year and subtracts all GR appropriations to determine the size of the state's cash reserves – ensuring that the budget is balanced and no deficit exists. The outlook statement also breaks out recurring and non-recurring revenues and appropriations.

The statement begins with the budget year that just ended in June 30 (FY 2009-10). Based on the latest (March 2010) estimate of GR for that year – \$21.057 billion – and adjusted for any balance forward from the previous year, trust funds sweeps, the \$287.5 million from the Seminole Compact and other factors – the state had \$22.532 billion available last year. Of this amount, \$1.298 billion was non-recurring revenue. The estimate expenditures for FY 2009-10 are \$21.576 billion – meaning the state has \$956 million in cash reserves that carry forward into the current budget year. Of note, \$574 million of those reserves are recurring revenues, meaning last year was the first year in a while that the state did not spend non-recurring revenues on recurring expenses.

For the current budget year (FY 2010-11), the state has \$24.111 billion in GR to spend and the Legislature appropriated \$23.826 billion (see table below).

General Revenue Fund Financial Outlook 2010-11

(\$ millions)

						Non-	
FUNDS AVAILABLE 2010-11					Recurring	Recurring	Total
Balance forward from 2009-10					-	955.8	955.8
Estimated revenues (March '10 estimate)					22,441.0	24.7	22,465.7
2010 Measures affecting revenue					(69.7)	310.0	240.3
Transfers from trust funds					-	367.5	367.5
Unused appropriations/reversions /other					(4.3)	85.6	81.3
Total 2010-11 funds available					22,367.0	1,743.7	24,110.7
APPROPRIATIONS 2010-11							
2010-11 General Appropriations Act					22,616.4	1,173.3	23,789.7
Special appropriations					2.2	56.2	58.4
Vetoed					(10.1)	(11.6)	(21.7)
Total 2010-11 estimated expenditures					22,608.5	1,217.9	23,826.4
ENDING BALANCE (cash reserves)					(241.5)	525.6	284.1

Source: Florida Legislature, Office of Economic and Demographic Research, July 15 2010.

The \$284 million in reserves is not much of a cushion (1.2%), especially with the potential impact of the Deepwater Horizon oil spill and the balance in the Budget

Stabilization Fund (BSF) of only \$275 million. The BSF is a constitutionally required emergency fund that the Legislature used in FY 2008-09 to balance the budget, when it withdrew \$1.074 billion. Under current law, the BSF will have to start being replenished in 2011-12 with a required payment of \$214.5 million.

It also appears that, absent a big increase in the next GR estimate, the state will again be funding non-recurring revenues with recurring expenses. Currently, there is a \$241.5 million recurring GR shortfall.

These numbers do not include the potential extension of federal Medicaid assistance to the states – known as FMAP. The 2010 Legislature anticipated \$960 million in FMAP money - \$230 million in appropriations are contingent on receiving it. The other \$730 million would be added to reserves. While the federal funds are trust fund revenues, it would be used to supplant GR appropriations, freeing those funds up for reserves. While once considered very likely, the prospects for these funds have diminished. It is currently being debated in the U.S. Senate, where an expected August 2, 2010 vote has been postponed until August 4. It is uncertain if there are enough votes to pass it.

What Does This Mean For the Next Budget?

For the next budget year (FY 2011-12), the \$284 million reserved will carry forward and when combined with the estimated revenues for the year, the Legislature will have \$24.7 billion at their disposal. This is almost \$2.1 billion more than the recurring general spending for FY 2010-11.

Due to the steps the Legislature took to increase available revenues last year and this year, and the fact that it spent less general revenue than is assumed in the \$5.47 billion shortfall estimate; it appears the shortfall may be less than anticipated. If the feds approve the FMAP funding, this will add another \$730 million in available revenues.

However, there is approximately \$2 billion in federal stimulus money in the current budget that will not be available next year. How much of this spending will be continued with GR funding remains to be seen.

Also currently unknown is how much a continuation budget will cost. With the new estimating conference data, the appropriations committees can begin estimating the additional costs to meet “critical and high priority needs.”

And the big question will be answered when the General Revenue Estimating Conference is held on August 12. The economy is showing signs of life, but the impact of the Deepwater Horizon oil spill is still unknown. Since the March 2010 estimates, actual receipts have been exceeding those estimates. Through June 2010, actual receipts are

\$228.7 million over the estimates (even when adjusted for law changes). So unless something drastic occurred with revenue in July (July receipts data will be available soon), a significant amount of revenue will be added to reserves. Then, while there is still much uncertainty, potential increased revenue estimates for FY 2010-11 and FY 2011-12 would further reduce the projected shortfall for the next budget.

**This *Budget Watch* was produced by Kurt Wenner, Director of Tax Research,
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