

# BUDGET WATCH

Florida  
TaxWatch



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## **New General Revenue Estimates Are Increased, But Use of Non-Recurring Revenues Still Has Florida in a Hole for Upcoming Budget Year**

Next Spring, the Florida Legislature will have \$685.5 million more than previously anticipated when it puts together the state's budget for FY 2004-05. Florida's Consensus Estimating Conference met recently to forecast general revenue (GR) receipts and revise those estimates upward. In fact, the state will have almost \$1.6 billion left over after the current year's spending from increased revenues, trust fund transfers by the 2003 Legislature and the \$950 million federal aid package.

While this is good news, it must be tempered with the knowledge that this extra money will be non-recurring. The Legislature must take care to not appropriate it for recurring programs in the next budget. This has become a habit of the Florida Legislature and it is not good fiscal policy, as it only postpones—and magnifies—tough budget decisions.

### ***General Revenue Highlights***

It is now expected that the State will bring in \$541.1 million more than anticipated during the current fiscal year and \$144.4 more during the next. Total GR is forecast at \$20.870 billion in FY 2003-04 and \$21.574 in FY 2004-05.

This is despite a softer economic recovery and lower inflation than expected. This led to a small reduction in sales tax estimates, the state's main breadwinner. However, the state's real estate market continues to be quite robust and the resultant documentary stamp and intangibles taxes associated with mortgages are coming in well above forecasts. The 2003-04 estimate for documentary stamp taxes alone was increased by a remarkable 56%, or \$317 million. And despite the reduced estimates, sales tax collections are still expected to grow a healthy 6.3% in FY 2004-05.

Corporate income tax and insurance premium tax collections were also increased, helping to offset a reduction in the estimate for interest earnings from lower interest rates.

GR collections should total \$21.574 billion in FY 2004-05. This is \$704 million (3.4%) more than this year and \$144.4 million (0.7%) more than the old estimate.

## *Financial Outlook for Next Year*

The 2003 Legislature included over a billion dollars of recurring spending that was funded by non-recurring revenues in the 2003-04 budget. The new, higher revenue estimates bail them out a little, but there is still a \$570.5 million recurring general revenue deficit in this current budget year.

The summarized financial outlook statement below illustrates the fiscal condition of the state heading into next year's budget negotiations. There is \$20.562 billion in recurring general revenue to fund \$21.133 billion in recurring spending during 2003-04. This \$570.5 million deficit can be funded with the \$2.166 billion of surplus non-recurring revenue, leaving a total budget surplus of \$1.596 billion.

### **Combined General Revenue and Working Capital Funds Financial Outlook Statements** (millions \$)

		Non-	
		Recurring	Recurring Total
Funds Available 2003-04			
Balance Forward from 02-03	0.0	678.4	678.4
Estimate Revenues	20,566.5	303.3	20,869.8
Transfers from Trust Funds	0.0	726.3	726.3
Flexible Federal Aid	0.0	543.5	543.5
Other Adjustments	(4.3)	55.2	50.9
	20,562.2	2,306.7	22,868.9
Appropriations 2003-04			
General Appropriations Act	21,104.2	115.2	21,219.4
Supplemental Appropriations	30.2	367.0	397.2
Budget Amendment for Fed Aid	0.0	(400.0)	(400.0)
Other Adjustments	(1.7)	58.4	56.7
Total Effective Appropriations	21,132.7	140.6	21,273.3
Ending Balance/Working Capital Fund	(570.5)	2,166.1	1,595.6
Funds Available 2004-05			
Balance Forward from 03-04		1,595.6	1,595.6
Estimated Revenues	21,298.2	275.4	21,573.6
Other Adjustments	(4.3)	120.2	115.9
Total 2004-05 Funds Available	21,293.9	1,991.2	23,285.1

**Source: Florida Legislature, Office of Economic and Demographic Research**

Going into next year, the State will have \$21.294 billion in recurring revenue and \$1.991 billion in non-recurring revenue to fund the 2004-05 general revenue budget. This means there is \$21.294 billion to fund a continuation budget of \$21.133 billion, before workload, caseload and price increases, as well as any new spending. This leaves \$161 million to pay for these items.

A look at some of the additional spending required during 2004-05 shows that will not be enough. Some highlights:

<i>Program</i>	<i>Additional Recurring Expenses (million \$)</i>
Medicaid Increase	526
Other Social Services	100
Class size Amendment	517
K-12 (47,000 new students)	291
Universities (11,700 new students)	226
Community Colleges (19,900 new students)	107
Retirement Contribution Increase	240
Total	\$2.061 billion

This excludes other program caseload increases, a deficit in the state employees' health insurance fund, salary increases and any new programs/projects the Legislature might wish to fund.

It will again be tempting to use non-recurring revenue to help fund this recurring budget or to even create additional non-recurring revenue by maneuvers such as trust fund transfers. The use of non-recurring revenue to fund recurring programs is a bad budget policy that Florida TaxWatch has urged the Legislature to avoid whenever possible. When you use revenue from a source that is not going to be there next year to pay for a program that will be there, it will make it all the more difficult to balance the budget the next time.

Such spending pressures are not expected to let up. The state also has a \$650 million a year universal Pre-K amendment to implement beginning in 2005-06. If there is not enough money for growth or new initiatives, the Legislature's alternatives will be budget cuts, tax increases or even more "creative budgeting."

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## *About Florida TaxWatch*

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Florida TaxWatch is the only statewide organization entirely devoted to protecting and promoting the political and economic freedoms of Floridians as well as the economic prosperity of our state. Since its inception in 1979, Florida TaxWatch has become widely recognized as the watchdog of citizens' hard-earned tax dollars. The nationally distributed *City and State* magazine (now *Governing* magazine) published a poll of the nation's statewide taxpayer research centers. Based on this poll, the publication cited Florida TaxWatch as one of the six most influential and respected government watchdogs and taxpayer research institutes in the nation.

In recent years, news stories about Florida TaxWatch have run in all Florida newspapers, *The Wall Street Journal*, *The New York Times* and *The Washington Post* and *Fortune* magazine. In addition, Florida TaxWatch has been featured on the prestigious *MacNeil/Lehrer Newshour*.

Florida TaxWatch is a private, non-profit, non-partisan research institute supported by voluntary, tax-deductible membership contributions and philanthropic foundation grants. Membership is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, corporations, professional firms, labor unions, associations, individuals and philanthropic foundations -- representing a wide spectrum of Florida's citizens.

Florida TaxWatch's empirically sound research products recommend productivity enhancements and explain statewide impact of economic and tax and spend policies and practices. Without lobbying, Florida TaxWatch has worked diligently and effectively to build government efficiency and promote responsible, cost-effective improvements that add value and benefit taxpayers. This diligence has yielded impressive results: through the years, three-fourths of TaxWatch's cost-saving recommendations have been implemented, saving taxpayers over \$6.2 billion (according to an independent assessment by Florida State University). That translates to approximately \$1,067 in added value for every Florida family.

With your help, we will continue our diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and that government agencies are more responsive and productive in the use of your hard-earned tax dollars.

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