

## WHAT SHORTFALL?

### NEW GENERAL REVENUE ESTIMATES INJECT \$842 MILLION INTO THE NEXT BUDGET PROCESS

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**L**ess than a week after the Senate Appropriations Committee heard a gloomy presentation on the outlook for the upcoming budget, the General Revenue Estimating Conference met on December 18 and increased the revenue projections by \$461.5 million in FY2018-19 and another \$380.5 million in FY2019-20. This means the 2019 Legislature will have an estimated \$842 million more in General Revenue (GR) collections for the next state budget than was previously expected.

Nearly all of the increased estimate is due to forecasts for the sales tax and corporate income tax, the state's two largest GR sources. Minor up and down revisions in the other sources (along with an increase in estimated tax refunds) largely canceled each other out (see table on next page). The sales tax estimate was increased by \$490.5 million over the two years and corporate income taxes were boosted by \$341.4 million.

The increase in the GR estimate is the largest one the GR Conference has adopted since April 2006.

#### Change in Estimated General Revenue Collections Available for 2019-20 Budget

Increase in 2018-19 Estimated Revenues	\$461.5 million
Decrease in 2019-20 Estimated Revenues	\$380.5 million
<b>Total Additional Revenue</b>	<b>\$842.0 million</b>

The huge increase in the GR estimates is somewhat surprising, coming on the heels of recently adopted Florida and national economic forecasts which were slightly weaker in several key areas than the previous forecast. Generally, the Florida economy appears sound, with negatives such as construction activity being offset by strong tourism. Actual monthly GR collections have been consistently exceeding the previous estimates (August 2018), leading to the state's forecasters increasing the GR estimates.

The revised FY2018-19 estimate exceeds the prior year's collections by \$1.48 billion and FY2019-20 revenues should grow by another \$1.01 billion. The state is now expecting to collect \$32.705 billion in GR during the current year and \$33.715 billion in FY2019-20. This represents annual growth of 4.8 percent and 3.1 percent, respectively. Longer-term, annual growth of 3.1 percent to 3.7 percent is now expected through FY2023-24.

### Change in General Revenue Estimates by Source (*\$ millions*)

REVENUE SOURCE	FY2018-19	FY2019-20	TOTAL
<i>Increased Estimates</i>			
Sales Tax	\$273.8	\$216.7	\$490.5
Corporate Income Tax	\$155.9	\$185.5	\$341.4
Documentary Stamp Tax	\$9.7	\$12.5	\$22.2
Highway Safety Licenses & Fees	\$9.9	\$8.7	\$18.6
Insurance Premium Tax	\$10.8	\$5.7	\$16.5
GR Service Charge*	\$7.1	\$4.9	\$12.0
Article V (Court) Fees	\$9.3	\$2.4	\$11.7
Earnings on Investments	\$7.0	(\$0.4)	\$6.6
Intangibles Tax	\$2.9	\$3.0	\$5.9
Tobacco Taxes	\$2.2	\$3.2	\$5.4
Beverage Tax & License	\$8.6	(\$4.7)	\$3.9
Severance	\$0.5	\$0.3	\$0.8
<i>Decreased Estimates</i>			
Pari-mutuels Tax	(\$0.6)	(\$0.5)	(\$1.1)
County Medicaid Share	-	(\$10.3)	(\$10.3)
Indian Gaming Revenues	(\$29.1)	\$10.7	(\$18.4)
Refunds (increased estimate)**	(\$6.5)	(\$57.2)	(\$63.7)
<b>TOTAL</b>	<b>\$119.3</b>	<b>\$22.6</b>	<b>\$141.9</b>

\* Percentage (typically 7%) of trust fund revenues that go to GR \*\* Increased refund estimate decreases net revenue

### Change in General Revenue Estimates (*\$ millions*)

	DEC 2018 ESTIMATE	AUG 2018 ESTIMATE	CHANGE IN ESTIMATE	ANNUAL CHANGE BASED ON DEC. 2018 ESTIMATE	
2017-18*	\$31,218.2	\$31,218.2	\$205.2	\$1,623.7	5.5%
2018-19	\$32,243.8	\$32,705.3	\$461.5	\$1,487.1	4.8%
2019-20	\$33,334.7	\$33,715.2	\$380.5	\$1,009.9	3.1%
2020-21	\$34,544.2	\$34,976.1	\$431.9	\$1,260.9	3.7%
2021-22	\$35,827.4	\$36,209.6	\$382.2	\$1,233.5	3.5%
2022-23	\$37,086.9	\$37,418.0	\$331.1	\$1,208.4	3.3%
2023-24	\$38,349.1	\$38,559.5	\$210.4	\$1,141.5	3.1%

\* FY2017-18 are actual collections

## INCREASE IN CORPORATE INCOME TAX COLLECTIONS MAY RESULT IN TAX RATE REDUCTION AND REFUNDS

Florida, like most states, piggybacks its corporate income tax code with the federal code. With some exceptions, Florida annually adopts any changes made at the federal level. The significant changes contained in the tax reform passed by Congress will change Florida's tax base significantly. The impact is unknown at this time, but it is expected the state's tax base will increase, due to the elimination/reduction of deductions that were adopted by Congress to offset the federal rate cuts.

The 2018 Legislature, concerned about the impact of the federal changes, passed a bill to require an automatic reduction in the corporate income tax rate if actual net collections for fiscal year 2018-2019 exceed the revenue estimate made in February 2018 by seven percent. The tax rate will be reduced by the same percentage that actual collection exceeded that limit. The bill further requires any excess collections received during 2018-2019 to be refunded to all corporate taxpayers that had a final tax liability.

**If the new corporate income tax estimate is realized, an automatic reduction in the tax rate will be triggered, saving CIT taxpayers \$20.8 million. They would also receive \$41.8 million in refunds.**

The Legislature also created a workgroup to study the impact of federal tax reform, and this issue will be examined next session.

## THE BOTTOM LINE: WHAT DO THE ESTIMATES MEAN FOR THE FY2019-20 BUDGET

Back in September, the Joint Legislative Budget Commission adopted a new *Long-Range Financial Outlook*. This constitutionally required annual report compares estimated revenues and expenditures to give the Legislature a sense of the state's budget position going into session and whether lawmakers can expect a budget shortfall or surplus. The *Outlook* estimated that the 2019 Legislature will have a \$223.4 million budget surplus<sup>1</sup> when it puts together the state's new spending plan for FY2019-20. The *Outlook* further estimated the state will be facing shortfalls of \$47.8 million in FY2020-21 and \$456.7 million in FY2021-22.

The GR Conference is the culmination of a cycle of estimating conferences for other revenues and expenditures that impact the budget estimate. Last week, the Senate Appropriations Committee heard an update on the *Outlook*, incorporating the results of some of those conferences and the impact of Hurricane Michael. The Senate was told that the projected surplus of \$223.4 million had disappeared and instead the 2019 Legislature could be facing a shortfall of \$250 million; however, it was noted that several conferences yet to come could impact that estimate.

That was an understatement. The infusion of \$842 million in new GR will wipe out any shortfall next year, as well as the forecasted shortfalls in the next two years. The Budget Outlook table on the next page shows how the new estimate of available GR compares to the estimate in the *Outlook*.

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<sup>1</sup> This assumes the Legislature will transfer nearly \$400 million from trust funds—money earmarked by law for specific uses—into the General Revenue (GR) Fund. Without the trust fund sweeps, an estimated shortfall of \$78.9 million exists, climbing to \$169.1 million if the Legislature passes tax cuts

## General Revenue Budget Outlook

(\$ millions)

GR AVAILABLE FOR 2018-19	RECURRING	NON-RECURRING	TOTAL
Reserve (carried forward)		\$1,645.9	\$1,645.9
Estimated Revenues	\$32,275.2	\$430.1	\$32,705.3
Trust Fund Sweeps by the 2018 Leg. (net of vetoes)		\$399.9	\$399.9
BP Settlement Payment	\$26.7	\$-	\$-
FEMA Reimbursements		\$117.2	\$117.2
Unused Appropriations/Other Adjustments	(\$1.5)	\$9.0	\$7.5
<i>Total funds Available for 2018-19</i>	<i>\$32,300.4</i>	<i>\$2,602.1</i>	<i>\$34,902.5</i>
<b>GR APPROPRIATIONS BY 2018 LEGISLATURE</b>			
2017-18 Appropriations	\$31,774.1	\$1,074.5	\$32,848.6
Transfer to Budget Stabilization Fund		\$66.5	\$66.5
Reappropriations		\$87.4	\$87.4
Budget Amendments - Campaign Finance Match		\$9.9	\$9.9
Budget Amendments - Bridge Loans		\$25.0	\$25.0
Budget Amendments - Red Tide		\$17.2	\$17.2
Budget Amendments - Hurricane Michael Response		\$127.7	\$127.7
Total Effective Appropriations	\$31,774.1	\$1,408.2	\$33,182.3
<b>Ending Balance</b>	<b>\$526.3</b>	<b>\$1,193.9</b>	<b>\$1,720.2</b>
<b>GR AVAILABLE FOR NEXT BUDGET 2019-20</b>			
Reserve (carried forward)		\$1,720.2	\$1,720.2
Estimated Revenues	\$33,423.8	\$291.4	\$33,715.2
BP Settlement Payment	\$26.7		\$26.7
Unused Appropriations/Reversions		\$96.9	\$96.9
Federal Funds Interest Earnings Rebate	(\$0.5)		(\$0.5)
<b>GENERAL REVENUE AVAILABLE FOR NEXT BUDGET</b>	<b>\$30,830.6</b>	<b>\$1,461.6</b>	<b>\$32,292.2</b>
PREVIOUS ESTIMATE - LONG-RANGE FINANCIAL OUTLOOK (SEPTEMBER 2018)	\$32,926.3	\$2,061.0	\$34,987.3
DIFFERENCE FROM LONG-RANGE FINANCIAL OUTLOOK	\$523.7	\$47.5	\$571.2

There are many other factors besides the \$842 million increase in revenue collections that impact the bottom line. On the plus side, there is \$201 million more in unspent GR from FY2017-18 carrying forward into the current year; however, there have been \$170 million in additional GR appropriations (budget amendments), including \$127 million for Hurricane Michael response and \$17.2 million for combating red tide.

When all the adjustments are made, the 2019 Legislature will have an estimated \$571.2 million more in GR available for the next budget than was anticipated when the *Outlook* was adopted back in September.

This must be tempered by new estimates of GR expenditure needs for FY2019-20 resulting from other conferences. This includes Medicaid (\$48.0 million), Bright Futures scholarships (\$84.5 million) and higher than anticipated prison populations (\$13.4 million). A reduction in the anticipated rate of return for the Florida Retirement System investments will result in up to \$115 million more in state contributions—\$35 million more than previously anticipated. The state’s self-insurance fund will need an addition \$43.2 million as a result of Hurricane Irma. Hurricane Michael will surely add to that cost in the future.

There will be another round of estimating conferences in the Spring, which will produce the final numbers for the next state budget. The state’s economists noted that the current forecast carries a significant amount of risk “due to the mature stage of the current economic expansion.” But at least until those final estimated are adopted, the Legislature is breathing a bit easier than they were last week.

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