

# BUDGETWATCH

## FINALLY, SOME GOOD BUDGET NEWS

### NEW GENERAL REVENUE ESTIMATES ADD \$2.1 BILLION TO EXPECTED COLLECTIONS

**The General Revenue Estimating Conference (GREC) met on December 18 and 21 and increased** Florida's general revenue (GR) projections by \$1.486 billion in the current budget year and \$623 million in FY2021-22.<sup>1</sup> This restores 39 percent of the \$5.4 billion two-year reduction in the estimates adopted by the GREC last August.

During the first four months after the last GR estimate was made (August through November), actual collections have exceeded the estimate by \$1 billion. It is expected that December will add significantly to that overage. Even more surprising, collections in both October and November exceeded collections in those months last year.

In arriving at its forecast, the Estimating Conference added the additional new money that was collected in the first half of FY2020-21 but decided to largely keep the old forecast for the second half of the year. The conferees could have added even more revenue to the estimate but felt there was too much downside risk to do so (a legitimate concern).

FY	AUGUST 2020 ESTIMATE	DECEMBER 2020 ESTIMATE	CHANGE IN ESTIMATE		DECEMBER ESTIMATES CHANGE FROM PRIOR YEAR	
			\$ MILLION	%		
2019-20	31,366.2	31,366.2	-	0.0%	(2,047.6)	-6.1%
2020-21	30,990.1	32,476.0	1,485.9	4.8%	1,109.8	3.5%
2021-22	33,691.2	34,314.1	622.9	1.8%	1,838.1	5.7%
2022-23	35,279.3	36,064.5	785.2	2.2%	1,750.4	5.1%
2023-24	36,800.7	37,566.7	766.0	2.1%	1,502.2	4.2%
2024-25	38,089.7	39,012.5	922.8	2.4%	1,445.8	3.8%
2025-26	39,413.6	40,386.7	973.1	2.5%	1,374.2	3.5%

\* 2019-20 is actual collections

<sup>1</sup> Office of Economic and Demographic Research, results of the General Revenue Estimating Conference, December 21, 2020. <http://www.edr.state.fl.us/Content/conferences/generalrevenue/index.cfm>

Losses in sales taxes account for most of the increased estimates. The sales tax is by far the largest GR source in Florida, providing more than three-fourths of total collections. In the early stage of the pandemic, Florida's savings rate experienced historic growth, as many curtailed spending due to uncertain times ahead. That pent-up consumption demand is starting to be released. The sales tax estimates were increased by \$806.6 million in FY2020-21 and \$205.3 million in FY2021-22, with five of six sales tax categories seeing increases in FY2020-21. Only, the pandemic-ravaged Tourism & Recreation sector estimate was reduced, and only by \$43.9 million, a relatively small drop (less than one percent). Although it is expected to rebound next year, the new estimate for this year is \$1.3 billion (21.4 percent) below pre-pandemic levels.

The second largest increase in the forecast is in corporate income taxes (CIT), the second largest GR source. Despite reduced profitability, business failures and delayed business formations, CIT collections have been beating the old estimate so far this fiscal year. The forecast was increased by \$252.9 million in FY2020-21 and by \$274.7 million in FY2021-22. This seeming contradiction led to a rare occurrence—the GREC failed to reach a consensus and adjourned Friday without adopting a new forecast. New estimates must be agreed upon by all four principals in the conference and the difference between the high and low CIT estimates (approximately \$300 million each year) was too big to overcome. The GREC reconvened on Monday and reconciled.

Estimated total GR collections for this year move are 3.5 percent above last year's pandemic-reduced collection level but are still \$938 million (2.9 percent) below FY2018-19. The forecast predicts that, with effective vaccines being widely deployed, the recovery will begin in earnest in FY2021-22 and GR collections will grow by 5.7 percent, nearly matching pre-COVID levels. Healthy growth is expected to continue throughout the forecast horizon (see table above).

## The Budget Outlook for the 2021 Legislative Session

Federal aid, along with the state's sound pre-pandemic fiscal position, has thus far allowed Florida to avoid a budget deficit. The state deposited \$5.856 billion in federal money from the CARES Act into the General Revenue Fund in FY2019-20. Barring unforeseen circumstances, the new revenue estimates all but assure there will be no deficit in the current budget year (FY2020-21).

But this does not mean the 2021 Legislature will not be facing a tight budget year when they put together the next state spending plan during the upcoming session. As Senate President Wilton Simpson wisely commented on the new estimates, "By any measure, the significant gains reflected in today's estimate do not negate the many difficult challenges we will face as we craft a budget for the upcoming fiscal year, or that families and businesses across our state are facing as we all continue to battle COVID-19. We know all too well that these estimates can change in a heartbeat; therefore, the Senate will continue to proceed with caution."<sup>2</sup>

The state's *Long-Range Financial Outlook*,<sup>3</sup> released last September, predicted that in order to pass just a continuation budget, Florida will be facing a revenue shortfall of \$2.75 billion next year. The new estimates help, but a shortfall still looms. While the estimates add \$2.1 billion to the state's coffers, other adjustments result in the Legislature having only \$1.3 billion more GR available for FY2021-22 than anticipated at the time of the *Outlook*.

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<sup>2</sup> Florida Trend, "Florida's tax revenue projections improve for 2020-21 and beyond," December 22, 2020.

<sup>3</sup> Florida Legislature, Long-Range Financial Outlook, Fiscal Years 2021-22 through FY2023-24, September 10, 2020. Available at [http://www.edr.state.fl.us/Content/long-range-financial-outlook/3-Year-Plan\\_Fall-2020\\_2022-2224.pdf](http://www.edr.state.fl.us/Content/long-range-financial-outlook/3-Year-Plan_Fall-2020_2022-2224.pdf)

Change in Estimates and Annual Growth by General Revenue Source					
\$ millions - change from August 2020 to December 2020 estimates					
REVENUE SOURCE	CHANGE FY2020-21	CHANGE FY2021-22	TWO-YEAR CHANGE	GROWTH FROM PRIOR YEAR	
				FY2020-21	FY2021-22
Increased Estimates					
Sales Tax	806.6	205.3	1,011.9	1.5%	7.4%
Corporate Income Tax	252.9	274.7	527.6	5.2%	2.5%
Documentary Stamp Tax	96.9	59.5	156.4	11.9%	3.3%
Intangibles Tax	88.2	36.6	124.8	14.9%	-13.0%
Insurance Premium Tax	53.8	25.8	79.6	3.1%	-1.8%
Refunds**	88.5	(26.6)	61.9	-50.0%	-6.0%
Earnings on Investments	7.2	39.4	46.6	-27.8%	-5.9%
Corporate Filing Fees	34.7	8.0	42.7	16.3%	-2.6%
H'way Safety Lic. & Fees	21.3	14.6	35.9	-2.7%	-8.1%
GR Services Charges	15.4	11.0	26.4	1.8%	3.7%
Beverage Tax & License	14.4	3.2	17.6	0.4%	2.5%
Other	17.4	(0.8)	16.6	-2.1%	-13.5%
Tobacco Taxes	2.3	2.3	4.6	3.8%	-1.6%
Decreased Estimates					
County Mediciad Share	-	(42.2)	(42.2)	1.7%	-5.1%
Pari-mutuels Tax	(0.1)	(0.5)	(0.6)	0.5%	9.1%
Court Fees	(13.4)	12.8	(0.6)	-14.5%	28.7%
Severance Tax	(0.2)	(0.2)	(0.4)	-10.6%	2.2%
Total	1,485.9	622.9	2,108.8	3.5%	5.7%

There are many factors besides the new revenue estimates that affected available revenue, ones that impacted both revenue and spending in FY2019-20 and FY2020-21. In addition to the increased estimates, an additional \$530 million more carried forward into FY2020-21 than previously anticipated, due to reduced effective appropriations in FY2019-20. However, there has been additional spending in the current budget that was not included in the *Outlook*, including \$523 million in additional covid-19 response costs and \$67 million in added reemployment assistance.

Moreover, the new financial outlook<sup>4</sup> statement finally reflects the disbursement of at least most of the disbursement of \$1.275 billion in CARES Act funds to local governments<sup>5</sup>. At the time of the *Outlook*, the state had only disbursed \$318.8 billion, meaning approximately \$950 million still needed to be distributed to cities and counties. Florida TaxWatch has warned that this overstates the state's financial position. The new financial outlook includes an additional \$931 million in local disbursements.

Including the \$1.25 billion in local funds, the state has spent \$1.57 billion designated as CARES Act funds. In addition, \$1.17 billion in GR has been spent on COVID-19 costs that arose after the current budget was adopted. This means it is assumed that the remaining \$3.1 billion in CARES Act Funds is being used to pay for existing GR appropriations in the current budget. It is not certain this can be done under the federal CARES Act guidelines.<sup>6</sup> Further, any new COVID-related costs that may arise in the current year will reduce the GR available to the 2021 Legislature.

In addition, the state's fiscal condition is very much in flux and considerable downside risks exist. All this points to a very tight budget outlook and we urge the Legislature to review all spending, limit member projects, and look for recurring reductions in the base budget that are not necessary.

The Governor has already instituted a 6 percent holdback of agency operational spending (1.5 percent per quarter) to "curtail state agency spending during the upcoming fiscal year to allow for a review and potential reduction of non-essential state services and programs."<sup>7</sup> This was one of the recommendations in the Florida TaxWatch report *Bringing Florida's Budget Back from COVID-19*.<sup>8</sup>

***We encourage the Governor and the Legislature to consider more recommendations from that report, including implementing E-Fairness legislation and negotiating a new gaming compact with the Seminole Tribe. These two actions could provide \$1 billion to \$1.5 billion in new revenue without raising taxes.***

4 Office of Economic and Demographic Research, General Revenue Fund Financial Outlook Statement, December 21, 2020. [http://www.edr.state.fl.us/Content/revenues/outlook-statements/general-revenue/201221\\_GRoutl.pdf](http://www.edr.state.fl.us/Content/revenues/outlook-statements/general-revenue/201221_GRoutl.pdf)

5 Another \$2.472 billion was distributed by the U.S. Department of the Treasury directly to Florida local governments with populations greater than 500,000. The \$5.856 billion sent to the State of Florida includes \$1.275 billion for the other local governments.

6 U.S. Department of the Treasury, Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments, Updated June 30, 2020. <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Guidance-for-State-Territorial-Local-and-Tribal-Governments.pdf>

7 Governor Ron DeSantis, HB 5001 Transmittal Letter to Florida Secretary of State, June 29, 2020.

8 Available at <https://floridataxwatch.org/Research/Full-Library/ArtMID/34407/ArticleID/18892/Bringing-Floridas-Budget-BackFrom-COVID-19>, June 2020

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