

BUDGETWATCH

GENERAL REVENUE ESTIMATES INCREASED BY \$2.6 BILLION

Collections are now significantly exceeding pre-pandemic estimates, budget reserves reach \$10 billion

Florida General Revenue (GR) collections continue to exceed expectations throughout the pandemic and the new forecast paints a rosy budget picture for legislators as they head toward the 2022 Session. The

General Revenue Estimating Conference (GREC) met on August 17 and increased Florida's general revenue projections by \$1.409 billion in the current fiscal year and \$1.200 billion in FY2022-23.¹ GR collections are now well above pre-pandemic estimate levels; the new estimates are \$1.2 billion above those made in January 2020 for both FY2021-22 and FY2022-23.

Actual collections in the just the last three months of FY2020-21 (ended June 30, 2021) beat the estimate made in April 2021 by \$2.3 billion. Add this to the \$2.6 billion increase in the new estimates and legislators have nearly \$5.0 billion more for the next budget than previously anticipated. This does not include changes made by the 2021 Legislature that are expected to boost GR collections. After more than two years of not sharing gaming revenue with the Seminole Tribe due to an expired compact, a new agreement was ratified by the Legislature in a June 2021 Special Session. This will bring in an expected \$317.6 million in FY2021-22 and \$450.7 million FY2022-23. The 2021 Legislature also finally passed E-Fairness (remote sales tax collection) legislation (a top Florida TaxWatch priority)². Although most of the additional revenue from this will be transferred to the Unemployment Compensation Trust Fund and later used to reduce the Business Rent Tax, the legislation will net additional GR of \$450.8 million in FY2021-22 and \$62.4 million in FY2022-23 (some of this is offset by other tax relief passed by the 2021 Legislature)³. These dollars are included in the GR totals but are not considered increases in the estimate.

TABLE 1. CHANGE IN ESTIMATES - APRIL 2021 - AUGUST 2021 (\$ MILLIONS)

FY	April 2021 Estimate	August 2021 Estimate	Change in Estimate	% Change	August Estimates Change from Prior Year	
2019-20*	\$31,366.2	\$31,366.2	\$-	0.0%	\$(2,047.6)	-6.1%
2020-21*	\$33,951.8	\$36,280.9	\$2,329.1	6.9%	\$4,914.7	15.7%
2021-22	\$35,491.6	\$36,901.0	\$1,409.4	4.0%	\$620.1	1.7%
2022-23	\$37,136.4	\$38,336.8	\$1,200.4	3.2%	\$1,435.8	3.9%
2023-24	\$38,634.8	\$39,889.5	\$1,254.7	3.2%	\$1,552.7	4.1%
2024-25	\$40,382.1	\$41,471.8	\$1,089.7	2.7%	\$1,582.3	4.0%
2025-26	\$41,518.1	\$42,504.2	\$986.1	2.4%	\$1,032.4	2.5%

* August is actual collections ** All April estimates are adjusted by measures affecting revenue passed by the 2021 Legislature.

1 Office of Economic and Demographic Research, results of the General Revenue Estimating Conference, August 17, 2020. <http://www.edr.state.fl.us/Content/conferences/generalrevenue/index.cfm>

2 Florida TaxWatch, "E-Fairness is Now Law in Florida!" <https://floridatxwatch.org/Top-Issues/E-Fairness>

3 Office of Economic and Demographic Research, "Measures Affecting Revenue and Tax Administration-2021 Regular Session, July 23, 2021. <http://edr.state.fl.us/Content/revenues/reports/measures-affecting-revenues/MeasuresAffectingRevenues2021.xlsx>

It is somewhat surprising that the estimators predict that collections for most sources will decrease in FY2021-22. (see Table 2) The most notable exception is the sales tax—its projected increase accounts for almost all the total increase of \$1.409 billion. Total GR collections in FY2021-22 of \$36.9 billion are only 1.7 percent above the \$36.3 billion collected in FY2020-21. Collections in FY2020-21 grew by 15.7 percent over the pandemic-reduced collections of FY2019-20. This may prove to be conservative, but the GREC warned about the risk to sales tax collections associated with people returning to a normal purchasing mix of goods and services, as well as a more typical savings rate. These changes in consumer behavior have been benefitting sales tax collections.

As usual, the sales tax—by far the largest GR source in Florida—drove the new forecast. The sales tax estimates were increased by \$1.367 billion in FY2021-22 and \$668.5 million in FY2022-23, with all six sales tax categories increasing.

ANOTHER ROUND OF CORPORATE INCOME TAX REFUNDS AND TAX RATE REDUCTION ARE COMING

The second largest increase in the forecast is in corporate income taxes (CIT), the second largest GR source. Due in large part to the increased tax base created by the federal Tax Cuts and Jobs Act and the state's decision to not adopt provisions in the CARES

**TABLE 2. CHANGE IN ESTIMATES & ANNUAL GROWTH
BY GR SOURCE**

\$ MILLIONS // CHANGE FROM APRIL 2021 TO AUGUST 2021 ESTIMATES

Revenue Source	Change FY21-22	Change FY22-23	2-Year Change	Growth from Prior Year	
				FY21-22	FY22-23
Increased Estimates					
Sales Tax	\$1,367.3	\$668.5	\$2,035.8	6.2%	0.7%
Corporate Income Tax	\$307.2	\$536.0	\$843.2	-7.2%	21.2%
Insurance Premium Tax	\$118.2	\$96.3	\$214.5	5.2%	2.9%
Documentary Stamp Tax	\$127.0	\$28.5	\$155.5	-7.9%	-5.6%
Intangibles Tax	\$69.3	\$61.1	\$130.4	-19.9%	-5.1%
Corporate Filing Fees	\$52.5	\$60.7	\$113.2	-13.7%	2.9%
Beverage Tax & License	\$19.3	\$23.1	\$42.4	-3.9%	3.4%
GR Services Charges	\$16.8	\$4.1	\$20.9	-0.1%	-0.4%
Highway Safety Licenses & Fees	\$7.7	\$10.2	\$17.9	-10.0%	-6.6%
Other Sources	\$2.5	\$2.1	\$4.6	-5.2%	8.1%
Decreased Estimates					
GR Refunds*	\$(625.9)	\$(237.9)	\$(863.8)	118.2%	-40.8%
Earnings on Investments	\$(35.4)	\$(49.7)	\$(85.1)	-39.8%	3.5%
Nonop. Revenue	\$(7.7)	\$(7.4)	\$(15.1)	-34.0%	-3.9%
Severance Tax	\$(1.1)	\$(1.2)	\$(2.3)	1.0%	-4.0%
Tobacco Taxes	\$(0.6)	\$(1.0)	\$(1.6)	-7.4%	-1.3%
Pari-mutuels Tax	\$(0.2)	\$(0.2)	\$(0.4)	12.8%	1.5%
Court Fees	\$(7.5)	\$7.2	\$(0.3)	48.8%	-2.3%
Total Net GR	\$1,409.4	\$1,200.4	\$2,609.8	1.7%	3.9%
* Estimates of refunds were increased. Increased refunds decrease net revenue.					

Act to mitigate some of it, total CIT receipts are skyrocketing, increasing 37.0 percent in FY2020-21 and 20.4 percent in FY2021-22; however, the automatic refunds and tax rate reductions put in place to offset some of this tax increase will be triggered again. More than \$600 million in refunds from excess collections in FY2020-21 are expected to be distributed in FY2021-22 and the tax rate will go down from the current 4.46 percent to 3.54 percent (for tax years beginning in 2021). These refunds and rate reduction are factored into the new estimates.

It should be noted that even with the refunds and rate reduction, Florida corporations—as a whole—are paying more in CIT than was anticipated prior to the federal changes and the state response. In addition, the CIT tax rate is scheduled to return to its original 5.5 percent for tax years beginning after January 1, 2022. Coupled with the increased tax base due to the federal changes, this would cause a tax increase of approximately \$2 billion. Addressing this will be a priority for Florida TaxWatch during the 2022 Session.

THE BUDGET OUTLOOK: LEGISLATURE HEADS INTO NEXT BUDGET YEAR WITH \$10.0 BILLION IN RESERVES AND MORE FEDERAL FUNDS ARE COMING

Federal aid has played a big part in keeping the state's fiscal ship afloat during the pandemic. Now, with Florida's general revenue sources performing beyond anyone's expectations, the state's budget outlook has progressed way past solvent and has become downright rosy.

On June 30, Florida's General Revenue Fund ended FY2020-21 with an unprecedented balance of \$13.2 billion (see Table 3). This includes \$5.5 billion in federal funds from the American Rescue Plan (ARP) that was received by the state and deposited into GR in FY2020-21. This money will be spent during the current fiscal year. This includes \$4.4 billion from the ARP's State Fiscal Recovery Fund that will partially fund the \$5.3 billion in contingent appropriations made by the Legislature in 2021-22 General Appropriations Act (it was originally \$6.7 billion but the Governor vetoed \$1.4 billion). The state will distribute \$708 million to local governments and \$364 million will go to rental and housing assistance.

Even after subtracting these funds, there is still \$7.7 billion in obligated GR.

Looking forward, after the current budget and other appropriations are funded, the state will have an estimated \$7.3 billion left over at the end of FY2021-22. Add to this the \$2.7 billion⁴ balance in the Budget Stabilization Fund and the state has a record \$10.0 billion in reserves. And remember, the current \$102 billion budget is the largest in history and is a \$9.4 billion increase over the last budget (and this does not even count the ARP appropriations or another \$10 billion appropriated in the budget for FY2020-21).⁵

And more federal funding is coming. The state should receive the second half of its State Fiscal Recovery Fund allocation—\$4.4 billion. While \$900 million of that is already appropriated, the other \$3.4 billion will go into GR for the Legislature to do with as they see fit. This will boost reserves to \$13.4 billion. Other restricted use funds from the ARP's Capital Projects Fund and the State Small Business Credit Initiative are also still to come.

⁴ This includes \$1.05 billion that was transferred to the BSF after the Legislature eliminated the Lawton Chiles Endowment Fund last session.

⁵ Florida TaxWatch, "2021 Taxpayers Guide to the FY2021-22 Florida State Budget," June 30, 2021. <https://floridatxwatch.org/Research/Budget-Hub>

The COVID-19 crisis is not over. The Delta variant--and other potential mutations--still pose considerable risk to public health and the economy. But Florida's state government finances have thus far made it through the pandemic in good shape. In fact, the state's budget outlook is probably in the best it has ever been. Our state and local governments have received billions in federal aid, and billions more have been pumped into Florida's economy. The state's reserves are at an all-time high. Our revenue sources are performing even better than was anticipated before the pandemic and the Legislature finally plugged the multi-billion-dollar leak in the sales tax system caused by remote sales and ratified a new Seminole gaming compact that will generate a minimum of \$2.5 billion in new revenue to the state over the next five years and an estimated \$6 billion through 2030.

But all this money presents its own challenges. There is going to be strong pressure to increase funding for government programs and calls to create new ones. Some will be needed and beneficial, but many will not. The years following the housing bubble (the Great Recession) showed what can happen when Florida state and local governments spend most of windfall revenues. Just because the state has a lot of money in the bank, taxpayers should not stop paying attention to how government spends their money. Florida TaxWatch will not.

TABLE 3. FY2022-23 BUDGET OUTLOOK

	Recurring	Non-Rec.	Total
GR Available in FY2021-22			
FY2020-21 Ending Balance*	-	\$13,235.9	\$13,235.9
Estimated Revenues	\$38,187.9	\$(1,286.9)	\$36,901.0
Trust Fund Transfers	\$-	\$147.1	\$147.1
BP Settlement Agreement Payment	\$26.7	\$-	\$26.7
Reversions/Other	\$(1.1)	\$37.7	\$36.6
Total GR Available in FY2021-22	\$38,213.5	\$12,133.8	\$50,347.3
FY2021-22 Appropriations			
2021-22 Appropriations	\$34,959.7	\$2,394.4	\$37,354.1
Fed Aid (ARP) - State Fiscal Recovery Fund	-	\$4,408.3	\$4,408.3
Fed Aid (ARP) - Local Fiscal Recovery Fund	-	\$363.8	\$363.8
Fed Aid (ARP) - Housing Assistance	-	\$708.2	\$708.2
Surfside Condo/Storm Response	-	\$6.0	\$6.0
Re-employment Assistance Tax Refunds	-	\$182.9	\$182.9
Total FY2021-22 Appropriations	\$34,959.7	\$8,063.6	\$43,023.3
FY2021-22 Ending Balance	\$3,253.8	\$4,070.2	\$7,324.0
GR Available in FY2022-23			
Balance Forward from 2021-22	-	\$7,324.0	\$7,324.0
Estimated Revenues	\$38,901.1	\$(564.3)	\$38,336.8
BP Settlement Agreement	\$26.7	\$-	\$26.7
Unused Appropriations/Reversions/Other	\$(1.5)	\$113.8	\$112.3
Total GR Available for Next Budget	\$38,926.3	\$6,873.5	\$45,799.7
* Includes \$5.480 billion in federal American Rescue Plan (ARP) aid that will be appropriated or distributed to local governments in FY2021-22. See "FY2021-22 Appropriations" above.			

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