

# BudgetWatch

JANUARY 2016



## LEGISLATURE WILL HAVE \$395.6 MILLION LESS TO SPEND ON THE NEW STATE BUDGET THAN PREVIOUSLY ANTICIPATED

Florida legislators received news this week that they will have \$395.6 million less to spend on the next state budget than originally anticipated. Citing weaker corporate profits and adverse developments in the international economy, the state General Revenue (GR) Estimating Conference decreased its estimates of GR collections in each of the six years in its forecast horizon. The estimates were decreased for the current year (FY2015-16) by \$139.3 million (0.5 percent), and by \$249.2 million (0.8 percent) for the upcoming budget year (FY2016-17). This amounts to \$388.5 million less in revenue collections over the two years. Coupled with some additional minor adjustments, the reduction in available revenue climbs to \$395.6 million. Total collections for the current year are now forecast at \$28.275 billion, which represents growth of only 2.1 percent (\$593.7 million) over the current year.

This marks only the second time since October 2011 that the conference has produced reduced GR estimates. Looking further out, the estimates for the next four years were also decreased significantly, with an average reduction of \$279 million in each year between FY2017-18 and FY2020-21. Total GR collections are now expected to approach \$35 billion by FY2020-21.

These estimates are important because the Legislature can only appropriate the amount officially forecast to be collected in the fiscal year. GR is the money for which legislators have the most discretion, as it can be spent on most anything in the state budget. GR is a major source of revenue for education, human services, and public safety and corrections. When there is a discussion of a state budget shortfall or surplus, it is generally GR that is being considered.

*Changes in General Revenue Estimates*

\$ millions

Fiscal Year	August Estimate	January Estimate	Change
2014-15	\$27,681.1	\$27,681.1*	-
2015-16	\$28,414.1	\$28,274.8	-\$139.3
2016-17	\$29,756.2	\$29,507.0	-\$249.2
2017-18	\$31,189.3	\$30,889.4	-\$299.9

\*actual

*Amount of Change in General Revenue Estimates by Source*

\$ millions

Revenue Source	FY2015-16	FY2016-17	Total
<i>Increased Estimates</i>			
Sales Tax	\$129.1	\$64.0	\$193.1
Insurance Premium Tax	\$29.1	\$16.5	\$45.6
Highway Safety Licenses/Fees	\$19.7	\$12.2	\$31.9
Tobacco Taxes	\$5.3	\$7.4	\$12.7
Indian Gaming Revenues	\$3.6	\$0.9	\$4.5
Parimutuels Tax	\$2.2	\$2.2	\$4.4
<i>Decreased Estimates</i>			
Corporate Income Tax	(\$240.2)	(\$257.6)	(\$497.8)
Earnings on Investments	(\$22.2)	(\$25.6)	(\$47.8)
Court Fees	(\$10.5)	(\$16.0)	(\$26.5)
Other Sources and Refunds	(\$55.4)	(\$53.2)	(\$108.5)
<b>Total</b>	<b>(\$139.3)</b>	<b>(\$249.2)</b>	<b>(\$388.5)</b>

## Estimates Reflect Economic Uncertainty

While the state's economy is still growing, international uncertainty tempered the forecast, with the state's economists saying there is a possibility of additional adverse global developments that add a higher-than-normal level of risk to the forecast.

Estimates for individual revenue sources were truly mixed as eight sources were reduced and eight were increased. The estimates for two sources, beverage and documentary stamp taxes, were unchanged. In an unusual occurrence, estimates for the state's largest revenue source by far, the sales tax, were increased, while the estimate for total revenue fell. The estimated collections for the sales tax, which provides 78 percent of total GR, were increased by \$193.1 million over the two years; however, the state's second largest source, the corporate income tax (CIT), had its estimates reduced significantly. The National Economic Estimating Conference, held last month, adopted a much weaker estimate of corporate profits. Along with recently lower-than-expected CIT collections, this resulted in a reduction of \$497.8 million (10.4 percent).

The increased sales tax estimate is a result of stronger growth in the tourism and recreation and the business investment categories. Higher-than-anticipated growth in automobile sales has continued longer than was previously expected, but it is believed that will soon return to normal levels. Increasing purchases of insurance also boosted insurance premium tax collections; the estimate was increased by \$45.6 million.

A lower-than-anticipated effective earnings rate led to a decrease in the estimate for earnings on investments, with the forecast noting the limited opportunities for strong earnings in the current interest rate environment. Tax refunds are also expected to increase well above previous estimates, creating an additional \$113.1 million loss to net GR collections.

## The New Estimates Shrink the Anticipated Budget Surplus

The new estimates are not good news for the Governor and legislators. The Governor is proposing almost \$1 billion in tax cuts, an historic level of per-student public school funding and a new \$250 million economic incentive fund. The Governor's tax cut proposal only has a \$586.5 million impact to GR for the upcoming budget, but it has a recurring impact of \$920.9 million. The House has echoed the call for a \$1 billion tax cut package but it is likely to have less of a recurring impact. The Senate thus far has been talking about a much smaller cut of around \$250 million.

The legislature will have \$31.257 billion in GR available for the next budget (including unspent reserves carried forward.) This is \$395.6 million less than was previously estimated (in October), but still \$1.9 billion more than current year appropriations. Available recurring revenues of \$29.577 billion are \$1.323 billion more than recurring spending in the current budget. Non-recurring funds account for \$1.681 billion of the revenue available for the next budget.

The Legislature was expecting a \$635.4 million surplus for the new budget, based on the state's annual *Long Range Financial Outlook* that was released last September. The *Outlook* analyzes projected revenues against the increasing cost of a continuation budget to attempt to quantify a surplus or shortfall for the next budget year. A continuation budget includes last year's recurring budget base plus increases for "critical needs" that are considered essential, and "high priorities" that are non-essential spending which is historically appropriated.

The *Outlook* cautioned that while there was a \$635.4 million surplus for the next budget, the Legislature could only spend \$74 million of it on recurring appropriations without creating a shortfall in subsequent years.

After the new GR estimates, the Legislature will have \$287.9 million less available to spend than was anticipated when the *Outlook* was produced. In addition, other estimating conferences, including the Public School Enrollment and Medicaid Caseloads and Expenditure conferences, are also predicting higher costs. The latest enrollment forecast predicts 7,549 additional students in FY2016-17. This would cost an additional \$54.5 million at the Governor's proposed per-student spending level. The new Medicaid caseload estimates added more than 95,000 more people to the program, and the added costs of these new Medicaid recipients will also have to be addressed in the next state budget.

The Legislature will have to pay special attention to recurring spending, in light of reduced revenue estimates through FY2020-21. Of course, the Legislature doesn't have to fund everything they historically do, and that is the direction the Governor took to balance his budget recommendations. But competition for tax cuts and spending initiatives (not to mention member projects) will be heightened.

This makes the recommendations in the recently released Government Efficiency Task Force report even more important. Recommendations include enacting an annual Florida Government Efficiency Act, continued implementation of a new state accounting and cash management system, utilizing available telehealth strategies, and smarter sentencing for low-level non-violent offenders, all of which can help the state meet its future budget needs.

## ABOUT FLORIDA TAXWATCH

As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the citizens of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

Florida TaxWatch is supported by voluntary, tax-deductible donations and private grants, and does not accept government funding. Donations provide a solid, lasting foundation that has enabled Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves since 1979.

---

### FLORIDA TAXWATCH RESEARCH LEADERSHIP

Dominic M. Calabro	President & CEO
Robert Weissert, Esq.	Exec. Vice President & Counsel to Pres. & CEO
Kurt Wenner	VP of Research
Robert G. Nave	VP of Research

### FLORIDA TAXWATCH VOLUNTEER LEADERSHIP

Michelle Robinson	Chairman
David Mann	Chairman-Elect
Senator Pat Neal	Treasurer
Sen. George LeMieux	Secretary
Steve Evans	Senior Advisor

### RESEARCH PROJECT TEAM

Robert E. Weissert	Executive Vice President & Counsel to the President & CEO	
Kurt Wenner	VP of Research	<i>Author</i>
Chris Barry	Director of Publications	<i>Design, Layout &amp; Graphics</i>

All Florida TaxWatch research done under the direction of  
Dominic M. Calabro, President, CEO, Publisher & Editor.

FOR MORE INFORMATION: [WWW.FLORIDATAXWATCH.ORG](http://WWW.FLORIDATAXWATCH.ORG)

---

The findings in this Report are based on the data and sources referenced. Florida TaxWatch research is conducted with every reasonable attempt to verify the accuracy and reliability of the data, and the calculations and assumptions made herein. Please feel free to contact us if you feel that this paper is factually inaccurate.

The research findings and recommendations of Florida TaxWatch do not necessarily reflect the view of its members, staff, Executive Committee, or Board of Trustees; and are not influenced by the individuals or organizations who may have sponsored the research.