

## TOTAL COLLECTIONS EXPECTED TO SURPASS PRE-RECESSION HIGH

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**F**lorida's Revenue Estimating Conference met in August 2014 to develop new estimates of state General Revenue (GR). 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, and 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 you hear discussion of a state budget shortfall or surplus, it is generally GR that is being considered.

The results of the August conference were mixed, but in total, legislators will have \$141.6 million less for next year's (FY2015-16) budget than was anticipated based on the last estimates made in March.

With FY2013-14 ending this past June 30, we now know that actual collections came in \$106.7 million below the March estimate. For the new forecast, while the estimates for the current year (FY2014-15) were slightly increased by \$49.2 million (0.2 percent), the FY2015-16 estimate was reduced by \$84.1 million (0.3 percent).

### *Changes in GR Estimates (\$ millions)*

FY	March Estimate	August Estimate	Change
2013-14	26,304.7	26,198.0 (actual)	(106.7)
2014-15	27,140.2	27,189.4	49.2
2015-16	28,330.7	28,246.6	(84.1)

These estimate changes do not include the legislation passed by the 2014 Legislature that reduced or increased revenue. The March estimates were adjusted to reflect that impact, such as the tax cuts and a change in the tax on electricity that shifts approximately \$170 million from General Revenue to the Public Education Capital Outlay Fund. For example, FY2014-15 revenue from highway safety licenses and fees was estimated at \$864.5 million in March. It was later estimated that the motor vehicle tag fee roll-back passed by the Legislature would reduce GR by \$309.1 million. Other legislation reduced these fees another \$1.0 million. The new August estimate for these fees is \$550.4 million, \$3.9 million less than the adjusted March estimate.

The relevant bills passed last session reduced GR by an estimated \$542.7 million in FY2014-15 and \$617.9 million in FY2015-16. For more information, see July's *Budget Watch: Legislation Affecting Florida Revenues*.

Changes of less than plus or minus one percent are considered by the state estimators as being attributable to normal fluctuation and do not signal a significant change in Florida's economic forecast. Although the GR estimate decrease for FY2014-15 was small, the August conference was the first since October 2011 that reduced GR estimates in the current or following year. Seven straight conferences had produced increasing estimates.

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

Revenue Source	FY2014-15	FY2015-16	Total
Increased Estimates			
Sales Tax	\$228.9	\$137.4	\$366.3
Insurance Premium Tax	37.4	26.6	64.0
Corporate Filing Fees	16.9	18.7	35.6
Alcoholic Beverage Tax	4.4	5.5	9.9
Highway Safety Licenses/Fees	(3.9)	11.3	7.4
Decreased Estimates			
Corporate Income Tax	(151.0)	(218.9)	(369.9)
Intangibles Tax	(12.6)	(15.1)	(27.7)
Documentary Stamp Tax	(24.3)	(24.2)	(48.5)
Court Fees	(55.3)	(28.9)	(84.2)
Tobacco Taxes	(8.3)	(9.5)	(17.8)
Other Sources and Refunds	17.0	13.0	30.0
<b>Total</b>	<b>\$49.2</b>	<b>(\$84.1)</b>	<b>(\$34.9)</b>

*\*Actual collections in FY2013-14 came in \$106 million under the March estimate*

## **REVENUES HAVE FINALLY RECOVERED FROM THE RECESSION**

Despite the reduced estimates, total revenues are still growing, and the recovery remains ongoing. The new forecast projects total GR collections of \$27.189 billion in FY2014-15, which represents growth of just under \$1 billion (3.8 percent) over the last fiscal year (FY2013-14). Collections this year will finally exceed the previous high water mark of \$27.075 billion in FY2005-06, which was followed by three years of decreasing collections. Total GR collections are expected to grow another 3.9 percent in FY2015-16, reaching \$28.247 billion.

Throughout the forecast, the state's largest revenue source—the sales tax—performed better than anticipated, with estimates increased by \$366.3 million over the two-year period of FY2014-15 and FY2015-16. This is due to strength in taxable sales related to tourism, motor vehicles, business purchases and household goods. Sales taxes are expected to bring in \$20.693 billion this year, which accounts for 76.1 percent of total GR.

While the estimate for the sales tax was increased, the estimate for the second largest GR source—the corporate income tax—was reduced by \$369.9 million over the two years. Estimates for real estate taxes (documentary stamp and intangibles taxes) were reduced by \$76.2 million. Documentary stamp revenue is still less than half of what it was at its pre-recession peak, and intangibles tax revenue is less than one-third of its previous high.

It should be noted that the state economists attributed the decrease in corporate income taxes to historic cash reserves being invested in ways that reduce tax liability, not an underlying economic weakness. And while the estimate of real estate taxes was reduced due to slowing refinancing activity, the overall growth in these taxes is healthy.

### HOW DO THE NEW ESTIMATES AFFECT THE UPCOMING BUDGET?

Revenues have now recovered from the plunge brought on by the recession and steady growth is forecast for the next few years. The budget cuts necessitated by the struggling economy are a thing of the past, at least for the time being. Last year, legislators enjoyed their first significant budget surplus in several years; but it appears that the reduced GR estimates, coupled with the effect of last session's legislation, may make next year's budget a little bit tighter.

These new estimates mean that the legislature will have \$29.934 billion available for the next budget (including unspent reserves carried forward). If budget writers want to keep the same level of reserves that exists now (\$1.589 billion), there will be only \$43.4 million more GR available than was spent this year. This compares with \$403.3 more that was available last session, along with \$2.2 billion in reserves that were carried forward. Recurring GR for next year does exceed recurring appropriations from this year by \$1.3 billion.

There are many different factors affecting Florida's revenue and appropriations process. The budget outlook for next year will become more clear when the Legislature adopts the annual *Long Range Financial Outlook* in the Fall. 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.

These GR estimates will be revisited two more times before lawmakers begin to develop the next state budget when they meet in session beginning in March 2015. Estimates made in December will be used by the Governor for his budget recommendations (released in January). Another revision in March will produce the final amount that is available for the Legislature to appropriate.

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### NEXT MONTH'S BUDGET WATCH

There are conferences on a number of other revenue sources which fund various trust funds, and on items that drive appropriations, such as public school enrollment and Medicaid caseloads and expenditures. September's Budget Watch will examine some of these other estimating conferences.

## ABOUT THE AUTHOR



Kurt Wenner, Vice President for Tax Research, is a mainstay on the Tallahassee state budget watchdog scene and is the second-longest serving staff member of Florida TaxWatch.

Kurt has authored all of the major tax publications produced by Florida TaxWatch, including pieces on Florida's Intangibles Tax, and general sales, property, and business tax issues.

Kurt is the author of TaxWatch staples "How Florida Compares," the annual "Taxpayer Independence Day" report on tax burdens, and the annual "Budget Turkey Watch."

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